AMP Sustainable Future Australian Share

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 300 Accumulation Index on a rolling three year basis. This investment option primarily invests in shares listed on the ASX. Managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. In normal circumstances, the portfolio's international investments are fully hedged back to Australian dollars. The investment option may use derivatives such as options, futures or swaps to protect against risks or enhance returns and may short sell securities.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Australian Shares
Suggested minimum investment timeframe	5 years
Relative risk rating	High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian Shares	0
Cash	0

Actual Allocation	%
International Shares	2.30
Australian Shares	75.40
Listed Property and Infrastructure	12.24
Cash	10.06

Sector Allocation	%
Financials	26.79
Health Care	17.56
Cash	10.20
Real Estate	9.04
Industrials	7.46
Communication Services	7.07
Materials	5.96
Consumer Discretionary	4.29
Information Technology	4.27
Energy	4.09
Consumer Staples	2.17
Utilities	1.11

Top Holdings	%
CSL Ltd	8.63
Commonwealth Bank Australia	6.85
Westpac Banking Corp	3.61
Telstra Corp Ltd	3.42
National Australia Bank Ltd	3.25
Australia & New Zealand Banking Group Ltd	2.95
Wesfarmers Ltd	2.83
Woodside Petroleum Ltd	2.51
ASX Ltd	2.29
Brambles Ltd	2.28

Fund Performance

The Fund outperformed the benchmark for the June quarter. This outperformance was primarily due to the fund receiving a class action payment from Bellamy's (background details below). The Funds underweight exposure to materials meanwhile detracted from performance.

The largest positive stock-level contribution for the quarter was from an underweight position in Commonwealth Bank of Australia. The exclusion of Woolworths Group also added to relative performance. Detractors to relative performance included our exclusion of Afterpay Ltd and BHP Group.

The portfolio's bias towards companies with more positive ESG characteristics will likely continue to drive strategic tilts towards listed property and health care. The Fund is currently also overweight to communication services, while there is a structural underweight (or nil-exposure) to segments of the market leveraged to negative social impacts. Gaming and some segments within the food and beverage sector fall in this category, given their exposure to gambling, tobacco and alcohol. While the Fund is overweight listed property, it is underweight other interest rate-sensitive sectors, such as infrastructure and utilities (through underweighting the major greenhouse-emitting utilities).

The Fund also remains structurally underweight to gold and the materials sector, due to generally poor ESG characteristics within the sectors. An exception to this is some exposure to large diversified miners, with proven and demonstrable track records of appropriately managing ESG and sustainability risks.

<u>Benefit to Fund from Bellamy's Class Action</u>

On 23 February 2017, Slater and Gordon Lawyers and litigation funder IMF Bentham Ltd issued proceedings against Bellamy's Australia Ltd (BAL) on behalf of persons that acquired BAL securities between 14 April 2016 and immediately prior to the commencement of a trading halt in Bellamy's securities on 12 December 2016. The shareholder class action arose from Bellamy's alleged misleading or deceptive conduct and breaches of its continuous disclosure obligations in the period from 14 April 2016 to 9 December 2016, by failing to keep the market informed about the impact of regulatory change in China on Bellamy's financial performance, that FY17 revenue would fall short of market expectations and analysts' consensus and that Bellamy's EBITDA margins were in decline.

AMP Capital, on behalf of investors in various AMP Capital managed funds, participated as a group member in the Bellamy's class action.

On 13 March 2020, the Federal Court approved a A$9.7 million settlement of the class action and made orders determining the process by which the settlement funds were to be distributed to group members. As a result of the Fund's historical holding of Bellamy's shares during the class period, we received a proportionate share of the settlement distribution in late June. This resulted in a positive performance spike of approximately 9.5% on the same day. Further information on the class action can be found at https://www.slatergordon.com.au/class-actions/current-class-actions/bellamys.

Portfolio Positioning

The Fund's overweight position in medical diagnostics company Sonic Healthcare was a key contributor to outperformance during the quarter. Sonic provides pathology, laboratory medicine and radiology services to medical practitioners. There is strong underlying demand for medical diagnostic services, with global demand increasing as a result of growing and ageing populations and the development of new, less invasive and more efficacious tests. We believe the diversified service offering across a range of geographies offers good scope for revenue expansion. Sonic experienced weakness in revenue in March and April as routine pathology testing vanished in the early stages of the COVID-19 pandemic (and associated lockdowns) but has since returned to pre-COVID-19 levels in most regions. COVID-19 testing in several geographies has boosted earnings with many of Sonic's businesses involved.

Environmental Social Governance

During the quarter the Access to Medicine Foundation – of which AMP Capital is a signatory – has used the COVID -19 pandemic to draw attention to the need for pharmaceutical companies to help achieve fair, global access to

new products. The Foundation noted that "…this pandemic is going to hit the people living in low- and middle-income countries the hardest… The pharmaceutical industry is now working toward new treatments and vaccines targeting COVID-19. This is one half of the equation. When those new products leave the pipeline, ensuring they are made widely accessible will be the central issue. People in more vulnerable countries and communities must not be left behind." The Foundation also defined priority actions for companies to take by 2030 – now published in the methodology report for the next Access to Medicine Index – that align with the UN's call for a decade of action to achieve the Sustainable Development Goals and universal health coverage by 2030. Finally, the Foundation released a series of research which assesses the current situation for HIV, malaria and tuberculosis and how to end their burden on children in particular.
As a signatory investor, AMP Capital was pleased to see the Access to Nutrition Initiative release the 2020 Global Nutrition report during the quarter. The report provides and in-depth assessment of the state of nutrition across the globe and tracks the progress made towards 2025 Global Nutrition Targets. The report found that there have been gradual improvements in maternal, infant and young child nutrition and diet-related non-communicable diseases over the past decade. However, it is estimated that, globally, one in nine people still experience hunger and one in three people are overweight or obese. So the "double burden" of malnutrition remains a critical issue. The Initiative also published a report on what food and beverage companies globally are doing in response to the COVID-19 crisis including both commercial and philanthropic actions. Towards the end of June the Initiative release the methodology for its 2021 iteration of the Global Access to Nutrition Index, the main change being the inclusion of the "Product Profile" which will contribute 20% of the total score of a company. The Product Profile is an objective assessment of the nutritional quality of companies' product portfolios in several markets.
Finally, proxy voting is relatively quiet during the second quarter of each year. We continued our engagement with those companies who hold their annual general meetings in the April "mini season".

Market Review

In line with broader global markets, Australian shares recorded an extremely strong June quarter, as stocks rebounded from their lows experienced at the height of the COVID-19 related market panic in late March. The market finished the quarter up by 16.5%, as measured by the S&P/ASX 200 index on a total return basis. The relative success of Australia's COVID-19 containment measures, which saw authorities begin lifting mandatory lockdowns, combined with unprecedented fiscal stimulus drove the market's surge. Later in the quarter, economic indicators, such as business confidence, retail sales and trade figures, appeared to confirm the Australian economy was indeed in recovery mode. Amid all the bullishness, concerns of recent months however remained - and in some cases actually grew - such as tensions with China, potential second waves of infections (particularly in Melbourne), a rising Australian dollar and still most pressingly, COVID-19's effect on company earnings. The standout performer at a sector level was information technology (IT), which rose by a remarkable 48.7% during the period. This small, but fast-growing sector of the Australian economy appears to have benefitted in many ways from the COVID-19 crisis, as changing consumer behaviour and a shift towards online activities has led to increasing tailwinds for many IT businesses. Consistent with a rebound in the economy, defensive sectors underperformed.

Outlook

Australian shares will likely continue to be primarily driven by global markets. Like its international peers, Australia's economic growth has slumped, though evidence of a bounce-back is already emerging. Australia's greater degree of government stimulus (relative to other countries) should help support Australian shares, though there are some near-term risks, such as souring trade relations with China and a lack of earnings visibility for many companies. Given large price-rises since the March lows, we believe investors should be selective and, as always, keep an eye on the longer-term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0448AU*

*Closed to new investors

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