

# Responsible Investment Leaders Growth

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 return from the relevant benchmarks of the underlying investments on a rolling five-year basis. The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash and listed property, the portfolio is managed using a responsible investment approach (see additional information about Responsible Investment Leaders for more information).

## Investment Option Performance

To view the latest investment performances for each product, please visit [www.amp.com.au](http://www.amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Multi-Sector
<b>Suggested minimum investment timeframe</b>	5 - 7 years
<b>Relative risk rating</b>	High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

Asset Allocation	Benchmark (%)
International shares	42
Australian Shares	36
Listed Property and Infrastructure	6
International Fixed Interest	5
Australian Fixed Interest	4
Unlisted Property and Infrastructure	3
Cash	2
Growth Alternatives	2

Actual Allocation	%
International Shares	39.46
Australian Shares	35.64
Listed Property and Infrastructure	4.75
Unlisted Property and Infrastructure	9.64
International Fixed Interest	5.17
Australian Fixed Interest	4.52
Cash	0.83

## Fund Performance

After a challenging March quarter, the Fund delivered a strong performance over the June quarter. Market sentiment improved as investors focussed on the policy support provided by regulators, despite continued concerns about COVID-19. However, the Fund underperformed its benchmark, mainly due to an underweight allocation to shares early in the quarter and an overweight allocation to fixed income.

The international shares allocation underperformed its benchmark over the quarter, even though C World Ethical and Investec outperformed. Sector allocation contributed positively to relative returns, but this was more than offset by stock selection, which detracted. Stock selection was weakest in information technology, healthcare and financials stocks. The largest individual detractors were underweight positions in Apple and PayPal, and an overweight position in Merck & Co. An overweight exposure to emerging markets also detracted as they underperformed developed markets. The international listed property allocation also underperformed its benchmark.

The Australian shares allocation outperformed its benchmark over the quarter, with strong performances from DNR and Bennelong. Stock selection was the main driver of the outperformance, especially positions in communications services, financials and energy stocks. The largest individual contributors were overweight positions in Macquarie Group and Seek, and an underweight position in Woolworths.

The diversified fixed income allocation also outperformed its benchmark over the quarter, with all the underlying managers outperforming. An overweight position in investment grade credit contributed to the outperformance as did holdings in inflation linked bonds.

At the beginning of the year, many coined the 2020s as the 'ESG decade', and although the COVID-19 pandemic has shifted priorities, there is little doubt that ESG and the broader sustainability trend will continue to unfold for years to come. During the period, managers engaged with companies about human rights and supply chains; climate change and green projects; privacy, security and cyber issues; corporate governance; and access to treatments and vaccines for COVID-19.

## Environmental Social Governance

At the beginning of the year, there was no lack of observers and opinion makers coining the 2020s as the 'ESG decade', and although the COVID-19 pandemic has shifted priorities and focus, there is little doubt that ESG and the broader sustainability trend will continue to unfold for years to come; or as the CEO of MSCI put it at the company's earnings call in January this year: "So, 10 years from now, in the investing industry, I don't think that there will be a category called sustainable investing because everything that people will do, will have to have an element of sustainable investing in that - in their investment processes."

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."

## Market Review

International shares surged back from their March lows over the June quarter, with the MSCI World ex Australia index finishing the period up by 18.5%. This came as virus-related market panic progressively dissipated and lockdowns began to be lifted. Death rates, while high, were also far below previous 'worst-case' scenario estimates. As businesses reopened, most governments maintained (and in some cases even increased) their stimulus programmes, leading to continued support for share prices. Various economic indicators also appeared to confirm a global economic recovery was underway, reflected in sharp rises in business confidence and falling rates of unemployment. However, contrary to the bullish sentiment, the list of concerns on many investors' radars only appeared to grow, with issues such as civil unrest in the US, the upcoming US election, Chinese tensions (with Hong Kong, the US, India and even Australia) and an apparently rising risk of a 'second wave' of COVID-19 infections (particularly in the US) leading to a growing sense of unease. Perhaps most pressingly for shares, corporate earnings visibility remains low, resulting in many businesses being hard to value, particularly over the short-term.

In line with international 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.

Emerging market shares were very strong, driven by the same trends as developed markets to return 16.7% over the quarter as measured by the MSCI Emerging Markets index.

Global government bond yields moved higher in early April despite the US Federal Reserve only slightly slowing its pace of bond purchases, which had capped upward pressure on yields over prior weeks. Yields subsequently traded sideways through most of May despite shifts in sentiment variously associated with the tentative easing of lockdown restrictions, economic stimulus measures and speculation regarding progress in the development of a COVID-19 treatment. Favourable US economic data provided renewed upward momentum in early June, however, yields subsequently reversed course as economic sentiment deteriorated amid fears of a 'second wave' of the pandemic.

(All returns are quoted in local currency terms and on a total-return basis, unless otherwise stated.)

## Outlook

With global economies somewhat coming to grips with the impact of COVID-19 and some signs of stabilisation in infection rates, market sentiment is generally optimistic. However, despite the recent rebound, considerable uncertainty remains as the economic recovery is dependent on the success of reopening economies and the potential threat of a 'second-wave' of infections. Ultimately, we remain cautious about the months ahead and expect volatility to reappear.

Until there is some certainty surrounding COVID-19 and how the global economy will respond, we continue to target a broadly neutral allocation to growth assets. We are also ready for any potential buying opportunities that arise.

## Availability

Product Name	APIR
AMP Flexible Super	AMP1502AU
AMP Flexible Super - Retirement	AMP1373AU
CustomSuper	AMP1035AU
Flexible Lifetime - Allocated Pension	AMP1024AU
Flexible Lifetime - Investments (Series 1)	AMP1058AU*
Flexible Lifetime - Investments (Series 2)	AMP1436AU
Flexible Lifetime - Super	AMP1035AU
Flexible Lifetime - Term Pension	AMP1045AU
SignatureSuper	AMP0979AU
SignatureSuper - Allocated Pension	AMP1175AU

\*Closed to new investors

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