

Schroder Australian Equities

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To outperform the S&P/ASX 200 Accumulation Index after fees over the medium to long term by investing in a broad range of companies from Australia and New Zealand. With an established pedigree of investing in Australian equities for over 50 years, the Schroder Australian Equity option is an actively managed core Australian equity portfolio with a focus on investing in quality stocks predominantly in Australia characterised by strong returns on capital with a sustainable competitive advantage. The option draws on Schrodgers' deep research capabilities, with a long term focus on investing, it is suitable as a core portfolio holding over the medium term to long term.

Investment Option Performance

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

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	3 - 5 years
Relative risk rating	6 / High
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	95%-100%	96.62
Cash	0%-5%	3.38

Sector Allocation	%
Energy	3.60
Materials	28.81
Industrials	10.03
Consumer Discretionary	2.40
Consumer Staples	7.05
Health Care	5.16
Information Technology	1.36
Communication Services	6.14
Utilities	1.90
REITs	2.97
Financial-X-Property Trusts	27.20
Cash	3.38

Top Holdings	%
BHP Group Ltd	7.0%
Commonwealth Bank of Australia	5.0%
Westpac Banking Corporation	4.1%
Woolworths Group Ltd	3.9%
ANZ Banking Group Ltd.	3.8%
South32 Ltd.	3.5%
Telstra Corporation Limited	3.5%
Rio Tinto Limited	3.3%
Coles Group Ltd.	2.8%
Brambles Limited	2.6%

Portfolio Summary

The strategy underperformed its benchmark by 1.6% (gross of fees) for the June 2020 quarter.

Investment Option Commentary

Contributors

James Hardie (Overweight, +48.6%) James Hardie remains a standout business in the building materials industry, where for most mediocrity remains a stretch target. The Fund Manager remains optimistic on the ability of the dominantly US operations to continue improving earnings given the 1.2m – 1.3m housing starts do not seem elevated versus Australia (about 7 times the housing starts with 13 times the population), and Hardie products continue to take share from inferior products.

Boral (Overweight, +84.9%) Wild share price volatility with a massive underperformance bias belies a core business with a strong core in essential building products and cyclical but highly durable earnings (an attribute the Fund Manager believes remain wildly undervalued relative to those with intoxicating prospects backed by minimal evidence of profitability or durability). The Fund Manager remains hopeful new management will opt for simplification and operational excellence in an effort to restore returns to reasonable levels.

Detractor

Macquarie Group (Underweight, +40.8%) Banking and financial businesses are necessarily more opaque than industrial and resource peers given lack of visibility on cashflow and far greater leverage. Macquarie is more opaque than most given the operation of numerous non-banking businesses within a bank structure. The ability to deliver relatively smooth and growing profit outcomes over a long period, a tribute to ongoing innovation and solid management, have afforded the business a significantly higher valuation than peers. While the Fund Manager appreciate the quality and high levels of profitability generated by the funds management business, they believe the extended period of strong asset price growth, particularly aiding those employing high levels of financial leverage such as Macquarie, is being unjustifiably extrapolated. The justifiable caution with which investors are approaching investment in other banks and financials is not translating to Macquarie.

Market Commentary

Hyman Minsky would be turning in his grave. His financial instability hypothesis appears a prescient assessment of the consequences wrought by easy money. Rising debt to GDP everywhere may only be a rough indicator of the magnitude of the problem; however, whatever the indicator, the message is consistent. The proportion of zombie companies (companies that are able to service, but not pay off, their debt) is ever rising, productivity is falling and economic growth is illusory. What undoubtedly began (many years ago) as hedge financing (Minsky's term for lending which funded investments able to repay both interest and principal) has degenerated to a level where significant proportions of lending are premised only on an expectation of rising asset values: Ponzi finance.

Outlook

Policies aimed at maintaining the hegemony of the financial system over the real economy seem likely to continue. Looking for answers to share price moves in profits, cashflows and balance sheets may well remain fruitless. It seems more likely we will continue to run a global financial casino alongside a real economy which will increasingly be fuelled by debt-funded government ATM withdrawals. The difficulty posed by this environment is it distils investment strategies into two broad categories.

The first option is to discard any realistic attempts to value companies and chase the hot streaks in the casino. Some of you may remember the scene in 'The Big Short' where Selena Gomez describes synthetic CDOs with Richard Thaler in the casino: the accumulation of bets on 'the hot hand fallacy' where a run of success creates unwarranted confidence from an ever greater cohort of gamblers. Characterising this as 'investment' is disingenuous. The share price is creating the allure, not underlying value creation.

The second option is to rely on considered and realistic views of valuation, grounded in the low growth and high risk environment investors face. Fundamental value creation happens slowly and does not generally accord with 200% share price gains in a quarter. Ever more investors are being tempted into the former category as the 'hot hand fallacy' prevails, centred in a few sectors.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0465AU
AMP Flexible Super - Retirement account	AMP1375AU
AMP Flexible Super - Super account	AMP1504AU
CustomSuper	AMP0465AU
Flexible Lifetime - Allocated Pension	AMP0636AU
Flexible Lifetime - Term Pension	AMP0944AU
Flexible Lifetime Investment	AMP0995AU
Flexible Lifetime Investment (Series 2)	AMP1438AU
SignatureSuper	AMP0813AU
SignatureSuper Allocated Pension	AMP1177AU
SignatureSuper Select	AMP0813AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267



What you need to know

This publication has been prepared by AMP Limited ABN 49 079 354 519. The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. In providing the general advice, AMP Group and AMP Life Limited ABN 84 079 300 379, AFSL 233671 (AMP Life) receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by N.M. Superannuation Proprietary Ltd ABN 31 008 428 322, AFSL 234654 (NM Super), AMP Capital Funds Management Limited ABN 15 159 557 721, AFSL 426455 (AMPCFM), ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from the issuer or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither NM Super, AMPCFM, ipac, AMP Life, any other company in the AMP Group nor the underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.