

Specialist Australian Small Companies

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the performance benchmark, the S&P/ASX Small Ordinaries Accumulation Index, on a rolling three-year basis. The portfolio invests in small companies listed on the Australian Securities Exchange (ASX). For this portfolio small companies are considered to be those outside the top 100 listed companies (by market value). Up to 20% of the portfolio may be invested in unlisted companies that the investment manager believes are likely to be listed in the next 12 months, or in companies between the top 50 and 100 listed on the ASX.

Investment Option Performance

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

Investment Option Overview

Investment category	Australian Shares
Suggested minimum investment timeframe	7 years
Relative risk rating	Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	11.61
Australian Shares	82.23
Listed Property and Infrastructure	3.36
Cash	2.80

Sector Allocation	%
Consumer Discretionary	21.97
Materials	17.24
Industrials	14.87
Health Care	9.90
Information Technology	8.64
Financials	6.06
Communication Services	5.61
Consumer Staples	5.50
Real Estate	5.37
Cash	2.80
Energy	2.05

Top Holdings	%
City Chic Collective Ltd	2.49
Lynas Rare Earths Ltd	2.43
Eagers Automotive Ltd	2.07
Integral Diagnostics Ltd	2.04
Marley Spoon AG	1.89
Technology One Ltd	1.85
Pilbara Minerals Ltd	1.84
Seven Group Holdings Ltd	1.83
Ingenia Communities Group	1.78
Auckland International Airport	1.75

Fund Performance

The Fund posted a very strong positive absolute return and outperformed its benchmark over the December quarter. All four of the Fund's underlying managers posted strong positive absolute returns and Spheria, Eiger and Perennial outperformed the benchmark. The Fund continues to outperform its benchmark over the longer term, including over 1, 2, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

Stock selection was the main driver of the outperformance, while sector allocation detracted from relative returns. Regarding sector allocation, the main detractors from relative returns were underweight exposures to financials and materials, and overweight exposures to information technology and healthcare. The main contributor was an underweight exposure to real estate.

Regarding stock selection, the main contributors to relative returns were positions in materials, consumer discretionary, health care and communication services stocks. The main detractors were positions in information technology, financial and consumer staples stocks.

The largest individual contributor to relative performance was an overweight position in Pilbara Minerals. The mining company rocketed higher (+187.4%) as excitement about electric cars drove up demand for lithium, which the company mines in Pilbara, Western Australia. Other positive contributors included an underweight position in regenerative medicine company Mesoblast which dropped sharply (-55.7%) and an overweight position in mining company Lynas Rare Earths which soared (+71.6%) over the period.

The largest individual detractor from relative performance was an underweight position in Virgin Money UK. The financial services provider shot higher (+83.0%) mainly due to optimism around the availability of COVID-19 vaccines, and despite releasing very disappointing full-year 2020 results. Other detractors included an overweight position in food delivery service Marley Spoon which fell (-2.9%) and an underweight position in mining company Mineral Resources which rallied (+33.7%).

Market Review

Australian shares had an extremely strong December quarter, rising by 13.70%, as measured by the S&P/ASX 200 index on a total return basis. Moves in the Australian share market broadly reflected optimistic sentiment around the globe. In October, stocks rose amid improving domestic economic indicators, as well as further stimulus measures introduced in the Australian Federal Budget. Victoria also announced its intention to "reopen" its economy after one of the harshest lockdowns so far seen. An RBA rate cut, combined with a quantitative easing programme announcement in the first week of November further spurred stocks, although the real booster came shortly after multiple successful vaccine trials were announced overseas, causing markets to surge. Victoria also continued to emerge from its second wave of COVID-19 cases, with the virus apparently all but eliminated across the state by the end of November. Towards the quarter's end, news-flow continued to centre around the rollout of COVID-19 vaccines, though continued solid economic indicators in the US and a Brexit deal finally being reached in the UK added further support. The Australian economy meanwhile moved out of recession and this, combined with improving consumer confidence, continued ultra-low interest rates and continued RBA quantitative easing, all helped push markets higher, even despite a new COVID-19 outbreak emerging in Sydney around Christmas time.

Outlook

Australian shares will likely continue to be strongly influenced by global markets and events. Like its international peers, Australia's economic growth has slumped, though evidence of a bounce-back has emerged in some sectors as borders are opened, pandemic restrictions wound down, and GDP returns to some form of normalcy. Australia's greater degree of government stimulus (relative to other countries) and low COVID-19 cases from an international perspective should help support domestic shares, though there are continuing issues, such as soured trade relations with China and a continued lack of medium-term earnings visibility for many companies. Given the large price rises through most of 2020, there may be an increased risk of corrections, though we believe the longer-term trend is likely to remain positive. We continue to believe investors should be selective and, as always, maintain a longer-term perspective.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1347AU
AMP Flexible Super - Super	AMP1476AU
CustomSuper	AMP0863AU
Flexible Lifetime - Allocated Pension	AMP0879AU
Flexible Lifetime - Investments (Series 1)	AMP1005AU**
Flexible Lifetime - Investments (Series 2)	AMP1411AU**
Flexible Lifetime - Super	AMP0863AU
Flexible Lifetime - Term Pension	AMP0933AU
SignatureSuper	AMP0951AU
SignatureSuper - Allocated Pension	AMP1147AU
SignatureSuper Select	AMP0951AU

**Closed to new and existing investors

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