Alphinity Australian Share

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

The strategy aims to outperform its benchmark over rolling five-year periods. The strategy is managed by Alphinity who seeks to build a portfolio of Australian shares listed on the Australian Securities Exchange that is well diversified across different industries and sectors and aims to meet the strategy's investment objectives in a risk-controlled manner. The strategy is intended for investors who are happy to invest for at least five years, are seeking high levels of return and are comfortable with high volatility, including the possibility of periods of negative returns.

Investment Option Performance

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

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	At least 5 years
Relative risk rating	6 / High
Investment style	Growth

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100	97.55
Cash	0	2.45

Sector Allocation	%
Consumer Discretionary	6.54
Consumer Staples	4.06
Energy	2.69
Financials Ex Property	29.45
Health Care	13.51
Industrials	9.22
Information Technology	1.29
Materials	24.31
Property Trusts	3.47
Telecommunication Services	2.13
Utilities	0.87

Top Holdings	%
BHP Group Limited	9.17
Commonwealth Bank of Australia	8.72
CSL Limited	8.44
National Australia Bank Limited	4.92
Woolworths Group Ltd	4.06
Wesfarmers Limited	4.00
Macquarie Group Ltd	3.86
Australia and New Zealand Banking Group	3.56
Goodman Group	3.47
Fortescue Metals Group Ltd	3.28

Portfolio Summary

- For the quarter ending Dec-2020, the investment option underperformed the benchmark.
- The investment option remains overweight to Resources and now also overweight Financials as the Manager continues to see some opportunity for Banks to recover some of their underperformance of the last couple of years as the risk of a more significant bad debt cycle has been reduced.
- The Manager's move back overweight in Healthcare in the second half of last year appears to have been a bit premature at this stage.
- Structural growth opportunities in Australian Healthcare remain strong and Alphinity expect it will continue to be rewarded over the medium term.

Investment Option Commentary

The market put on almost 14% in the December quarter, much of it in November when Covid vaccines were announced. The investment option underperformed this slightly but still delivered a strong absolute return for the quarter. It benefitted primarily from holdings in resource plays Fortescue Metals and Oz Minerals and not owning infant formula maker A2 Milk or the stock exchange, ASX. On the negative side, the biggest detractors were from gold producer Newcrest, blood fractionator CSL, hospital operator Ramsay Health and global insurer QBE; not owning consumer credit provider Afterpay also hurt performance somewhat.

The investment option outperformed over the year, best contributors again being Fortescue, Oz Minerals and CSL as well as BHP, industrial property developer Goodman Group, data annotator Appen and building products maker James Hardie. The key detractors were QBE, gas producer Santos, Newcrest, airline Qantas, property developer Mirvac and not owning Afterpay or accounting software provider Xero.

Market Commentary

A new year, a new market? While Alphinity are pretty sure they won't see an exact repeat of 2020, not everything is likely to change. The key will be to understand what might change and what might not.

The earnings outcome in 2020 turned out to be better than they initially feared but the strong market rebound that has taken place since March has so far primarily been driven by a re-rating of the market in anticipation of an earnings recovery in 2021 and beyond. Of course, ultra-low interest rates also supported higher equity valuations but even so, further upward re-rating looks unlikely so it will likely be the pace of earnings growth that determines market returns in the year ahead. Fortunately, economic indicators have remained positive despite the resurgence in Covid cases globally, especially in the US and Europe, as well as the setbacks in Australia, which of course have been on a very different scale. The vaccine rollout and diminishing "fear of the unknown" should mean that the current economic recovery has a good chance of staying more or less on track, supporting further market gains.

The decade-long debate about when they will see the end of low inflation has once again heated up in recent months. This is understandable considering the enormous amount of monetary and fiscal stimulus policy makers have provided. The strength of many commodity prices also suggests that they should remain alert and, even if they're reluctant to call a resurgence of inflation as the biggest risk to equity markets this year, it is likely that higher yields – especially for longer dated bonds – will provide some offset to the better earnings picture. A stronger Australian dollar is also looking like a headwind although, as with the risk from interest rates, AUD is only likely to continue to be in favour if the Australian economy, especially commodity prices, remains strong. This should also be supportive for overall earnings growth.

Outlook

The rebound in economic growth in Australia and globally has resulted in upgraded earnings expectations across large parts of the market. The portfolio has benefited from these upgrades, particularly in Resources but also in discretionary retailers. However, a number of other stocks in the market have also rallied in recent months even without the support of improved earnings expectations. This improvement might come with further reopening of the economy but would, in many cases, require that the world post-Covid looks much the same as it did before. This is a big assumption to make, in the Manager's view.

Furthermore, it also requires that this normalisation comes pretty soon. While Alphinity are encouraged by the better economic outlook it's important to remember that fiscal and monetary stimulus have been critical drivers so far. How long this remains the case will impact on where and how fast the earnings recovery can take place. They also expect that consumer and corporate behaviour will take some time to readjust and that some changes will be more permanent. For these reasons they remain underweight property, in particular office and retail property. They are also underweight Information Technology companies due to concerns about overly optimistic growth forecasts and valuations: these are Manager's largest sectoral underweights as they enter 2021.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1608AU
AMP Flexible Super - Retirement	AMP1617AU
CustomSuper	AMP0345AU
Flexible Lifetime - Super	AMP0345AU
Flexible Lifetime - Allocated Pension	AMP0629AU
Flexible Lifetime - Term Pension	AMP0936AU
Flexible Lifetime - Investments (Series 1)	AMP0834AU**
Flexible Lifetime - Investments (Series 2)	AMP1639AU**
SignatureSuper	AMP0805AU
SignatureSuper - Allocated Pension	AMP1164AU

**Closed to new and existing investors

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