Schroder Australian Equities

Quarterly Investment Option Update

31 December 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 Schroders' 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/performance

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	100	98.94
Cash	0	1.06

Sector Allocation	%
Energy	3.80
Materials	30.74
Industrials	10.12
Consumer Discretionary	2.61
Consumer Staples	8.29
Health Care	5.27
Information Technology	2.36
Communication Services	6.25
Telecommunication Services	0.00
Utilities	1.65
REITs	3.78
Financial-X-Property Trusts	24.07

Top Holdings	%
BHP Group Ltd	6.30
Commonwealth Bank of Australia	4.80
Telstra Corporation Limited	4.00
Rio Tinto Limited	3.90
Woolworths Group Ltd	3.80
South32 Ltd.	3.60
Westpac Banking Corporation	3.20
Coles Group Ltd.	3.10
National Australia Bank Limited	3.10
Brambles Limited	2.90

Portfolio Summary

The Schroder Australian Equity strategy outperformed its benchmark for the December 2021 quarter.

Investment Option Commentary

During the quarter, the Fund added value through both sector allocation and stock selection. At a sector level, the most significant contributor was an overweight allocation to the Materials sector, as a surge in underlying commodity prices propped up performance. Additionally, underweight both Health Care and Consumer Discretionary sectors also added value. Conversely, detractors from performance included an underweight allocation to Financials and Information Technology sectors.

At a stock level, contributors included underweight positions in CSL and Newcrest Mining, along with an overweight tilts to Fletcher Building, Virgin Money UK and Alumina. Detracting from performance were the nil holdings in Fortescue Metals and AfterPay. In addition, an underweight position in the Commonwealth Bank and an overweight position in Aurizon Holdings also detracted from relative performance.

Contributors

Virgin Money UK (Overweight) (+83.0%)

Wild oscillations in the share price remain reflective of equity market conditions rather than rapidly changing business fundamentals. As the UK struggles under a COVID-19 impact significantly more severe than many other jurisdictions, Schroders remain troubled by questions over how credit can be kept flowing, interest rates kept at negligible levels and bank shareholders insulated against the spectre of bad debts should efforts to perpetuate asset price gains regardless of fundamentals ever prove unsuccessful. This question, and the leveraged nature of banks continues to temper their enthusiasm for the sector despite apparently attractive valuation metrics versus history. Whilst there is undoubtedly valuation appeal in the business if the book value proves reliable and the litany of abnormal items which management continue to remove from earnings in order to paint a more appealing picture eventually ceases, they acknowledge the attraction in this investment is more in its apparently cheap valuation than in the quality of the business..

Fletcher Building (Overweight) (+52.8%)

Attraction to the Fletcher Building business has been its potential and highly attractive valuation rather than historic performance. Strong market positions in hardware and building products, particularly in NZ, provide highly sustainable, albeit cyclical revenues. For many years the business has struggled to convert relatively strong NZ housing conditions into improving profitability at the hands of ill-considered offshore expansion and disappointing cost management. Schroders are hopeful renewed management efforts on this front, continuing strong residential housing activity, limited COVID-19 impact and ongoing attractions of NZ as a market (population growth potential, renewable power, competent and stable political landscape) will offer an improving profit picture. In combination with a valuation which would still be fairly appealing should none of this improvement eventuate, they see the odds strongly in investors favour.

Detractors

Afterpay (Underweight) (+47.5%)

Without detracting from the enormous success which the business has delivered in attracting users of its buy now pay later service and the undoubted consumer appeal of foisting costs on retailers rather than consumers, Schroders find the more than $30bn valuation attributed to the business difficult to fathom. As a relatively small revenue business with global potential, a simple story and a customer base which overlaps with the most eager new participants in the equity market frenzy, the ducks have lined up for a stratospheric valuation. Management are obliging with regular and judicious business updates to fuel the adrenaline. Their longer-term concerns remain the already intensifying competitive landscape and the lack of scale economics. Whilst the world remains awash with countless billions seeking to finance technology businesses of any shape and form without regard for profit, they would expect this landscape to depress rather than augment the outlook for future sector profitability.

CBA (Underweight) (+29.1%)

Major banks in Australia have far greater similarities than differences; balance sheets which predominantly send deposits and wholesale funding out the other side as housing loans to support the Australian love affair with overpriced property and far lower proportions as business and personal lending. Long history and benign operating conditions have seen the costs of performing this function grow incessantly. While CBA performs these operations at least as well as other major banks and with good technology, the eroding value of a large deposit base in a zero interest rate environment and intense competition for the remaining creditworthy borrowers, make it difficult to sustain its profit and return on equity advantage over peers. Valuation continues to reflect a large and sustainable advantage over peers.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1504AU
AMP Flexible Super - Retirement	AMP1375AU
CustomSuper	AMP0465AU
Flexible Lifetime - Super	AMP0465AU
Flexible Lifetime - Allocated Pension	AMP0636AU
Flexible Lifetime - Term Pension	AMP0944AU
Flexible Lifetime - Investments (Series 1)	AMP0995AU**
Flexible Lifetime - Investments (Series 2)	AMP1438AU**
SignatureSuper	AMP0813AU
SignatureSuper Select	AMP0813AU
SignatureSuper - Allocated Pension	AMP1177AU

**Closed to new and existing investors

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