AMP Capital Equity Income Generator

Quarterly Investment Option Update

31 March 2021

Aim and Strategy

To provide annual dividend income (including franking credits) above the dividend income of the performance benchmark, the S&P/ASX 200 Accumulation Index (adjusted to include franking credits). The option also aims to provide a total return (including franking credits) in excess of the performance benchmark on a rolling 5 year basis. The option invests in an actively managed portfolio of Australian securities listed, or about to be listed, on the Australian Securities Exchange. The strategy also aims to provide these returns with a lower volatility than the broader Australian equity market.

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	5 years
Relative risk rating	High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	4.21
Australian Shares	88.49
Listed Property and Infrastructure	6.24
Cash	1.06

Sector Allocation	%
Financials	24.28
Materials	20.13
Health Care	13.78
Consumer Discretionary	12.06
Industrials	6.97
Energy	6.42
Real Estate	6.24
Consumer Staples	4.74
Communication Services	2.87
Utilities	1.46
Cash	1.06

Top Holdings	%
Aurizon Holdings Ltd	5.14
BHP Group Ltd	4.28
Virgin Money UK PLC	4.21
Crown Resorts Ltd	3.99
Westpac Banking Corp	3.90
Genworth Mortgage Insurance Au	3.70
Regis Healthcare Ltd	3.56
Brickworks Ltd	3.32
Estia Health Ltd	3.18
National Australia Bank Ltd	3.15

Fund Performance

The Fund delivered a total return of 0.69% (after fees) over the September quarter, outperforming the benchmark by 40 basis points.

Bond yields globally continued to fall and yield curves flattened over the third quarter of 2019. Australian credit spreads performed well, outperforming the sideways moves in offshore credit markets. Against this backdrop, the Fund added value from both interest rate management and credit positioning, with credit excess returns coming from both the capital and income components.

At the sector level, Industrials, Utilities and Real Estate were the top contributors to credit excess returns. At the security level, exposures to Asciano Finance, Westpac Banking Corporation and Volkswagen Financial Services Australia were the outperformers. Modest underperformance came from a corporate exposure to Discovery Communications.

After a quiet start to the quarter, primary issuance activity picked up in the domestic market during September with the major banks being prominent issuers. The Fund participated in new issuances from ANZ Banking Group, Suncorp-Metway and Westpac Banking Corporation. Foreign issuers were also active, with the Fund participating in senior-ranked issuance from Toronto-Dominion Bank, Bank of Montreal, BPCE SA, Banco Santander and Credit Agricole. Beyond the banking sector, corporate issuers returned to the market following the domestic reporting season. John Deere Financial and Pacific National undertook fixed-rate deals with maturities of 5- and 10-years respectively.

Our focus has been on carefully selecting better issuers and structures and reducing exposures to areas where we feel risk premia inadequately compensate for risk, while opportunistically adding risk where we feel premia overcompensate. Broadly, this has meant taking a more measured approach to adding further risk at the lower end of the rating spectrum, while focusing on the shorter end of the curve where break even rates are more attractive. Our credit beta has moved lower overall, with investments beyond the five-year tenor generally within higher-grade credit.

We continue to seek sector diversification opportunities, and over the medium term are focusing on sectors and issuers that should perform well in an environment where credit spread volatility increases modestly, which we anticipate will have a more meaningful impact on more cyclical sectors. Our preference is for exposures to defensive or non-cyclical industries such as utilities and infrastructure or those credits that can illustrate solid deleveraging stories.

Portfolio Positioning

As we navigate the rollout of vaccines globally, we continue to favour stocks which provide a desirable mix of reasonable dividends, good expected dividend growth and leverage to an economic recovery. Relative to the benchmark, our largest sector overweights are to retail, transport and diversified financials, as we like their ability to leverage an economic rebound and to then pay reasonable dividends in the medium term. We are significantly underweight information technology and infrastructure, relative to the benchmark.

The Fund aims to invest in sectors and companies with highly defensible income streams and or reasonable dividend growth prospects in the medium-term. This underpins the objective of delivering a stable, tax-effective income to investors and we believe ultimately creates a more robust portfolio during different market cycles.

Market Review

Australian shares climbed higher in the March quarter, rising by 4.26% as measured by the S&P/ASX 200 index on a total return basis, as global economies continued to recover from the COVID-19 pandemic. Similar to the tone in international markets, sentiment in the Australian market was generally optimistic, despite some underlying pockets of concern. This was aided by a strong half-yearly company reporting season, which produced mostly good results relative to the prior period. Many companies' earnings bounced back significantly towards (and in some cases beyond) their pre-COVID levels, leading some businesses to increase dividends and reintroduce forward guidance. The retail and mining sectors were standout sectors for strong results. Banks were also able to reduce some of their bad debt provisions. The global theme of rotation from growth and technology-orientated stocks towards value and cyclical stocks also prevailed in the domestic market. While Australia still appears well placed in a global sense to emerge strongly from the COVID-19 crisis, concerns around wages growth and inflation levels remain, which was reflected in comments from the RBA who reiterated they would continue their stimulatory policy strategy for as long as necessary, which helped support the market. Concerns around Australia's debt levels also remain a talking point.

Outlook

Australian shares will likely continue to be strongly influenced by global markets and events. The hope is that, now the COVID-19 vaccination programme has started to roll out, the economy will be able to return to more normalised growth in a reasonable timeframe, boosting business and consumer confidence. Australia's greater degree of government stimulus (relative to other countries) and low COVID-19 cases from an international perspective should aid the recovery process. However, soured trade relations with China and a continued lack of medium-term earnings visibility for many companies remain a spectre. In addition, the upcoming wind-down in government support programmes will add to uncertainty. Given the large equity price rises post the large pandemic -induced correction early in 2020, there is an increased risk of a correction, 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	AMP9037AU
AMP Flexible Super - Super	AMP9035AU
CustomSuper	AMP9036AU
Flexible Lifetime - Allocated Pension	AMP9038AU
Flexible Lifetime - Investments (Series 2)	AMP2044AU**
Flexible Lifetime - Super	AMP9036AU
SignatureSuper	AMP9039AU
SignatureSuper - Allocated Pension	AMP9040AU

**Closed to new and existing investors

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