

Alphinity Australian Share

Quarterly Investment Option Update

30 September 2021

Aim and Strategy

The strategy aims to outperform the S&P/ASX 300 Accumulation Index 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	Aust. Shares
Suggested Investment timeframe	At least 5 years
Relative risk rating	7 Very High
Investment style	Growth

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	97.66%
Derivatives	0%	0.25%
Cash	0%	2.09%

Sector Allocation	%
Consumer Discretionary	9.49
Consumer Staples	4.83
Energy	5.94
Financials Ex Property	36.57
Health Care	9.83
Industrials	5.72
Information Technology	1.14
Materials	18.47
Property Trusts	3.63
Telecommunication Services	2.05
Utilities	0.00

Top Holdings	%
Commonwealth Bank Of Australia	10.18
BHP Group Ltd	7.09
National Australia Bank Ltd	5.99
CSL Ltd	5.84
Macquarie Group Ltd	4.95
Australia And New Zealand Banking Group Ltd	3.84
Woolworths Group Ltd	3.69
Goodman Group	3.15
Wesfarmers Ltd	3.11
Aristocrat Leisure Ltd	2.91

Portfolio Summary

- For the quarter ending September 2021, the portfolio returned 2.62% after fees, outperforming the benchmark by 0.84%. Before fees the fund returned 2.86%.
- At a stock level the key contributors to performance include, Fortescue Metals Ltd, Vivia Energy Group and Medibank Private. On a sector level positions in Financials, Materials and Health Care sector contributed to the quarterly performance.
- Key detractors at a stock level were BHP Group Ltd, Sydney Airports and WiseTech Global Ltd. Key detractors at a sector level were Property, Industrials and Utilities.

Investment Option Commentary

The Fund outperformed the market in the September quarter. Key contributors were petrol distributor Viva Energy, Macquarie Group which rallied on the back of a solid trading market update, health insurer Medibank Private, security app Life 360, and comfort food provider Domino's Pizza Enterprises. Not owning iron ore miner Fortescue Metals Group also helped, although this was largely offset by the fund's position in diversified miner BHP Group. Not owning takeover target Sydney Airport and logistics technology company WiseTech Global both detracted from returns.

Market Commentary

Simultaneous concerns about rising inflation and fading global economic growth weighed on equity markets in September. While many equity markets still look somewhat stretched, talk about stagflation is overly pessimistic at this point, in Alphinity's view.

Global growth is clearly slowing following a strong recovery from the initial Covid-induced slump over the last year or so. Some of that slowdown is simply the economic cycle maturing; some is due to the resurgence of Covid thanks to the Delta variant, not least here in Australia; and some is ongoing and even worsening bottlenecks in the global supply chain. Overall though, there are few signs of growth stalling altogether. With the vaccines looking to be winning and supply chain constraints likely to gradually ease, in Alphinity's view growth should be moderate but not disappear.

Inflation looks to be the higher risk. Unexpectedly strong demand recovery and resulting bottlenecks, inflation appears to have become more entrenched and affecting more long-lasting factors such as housing rents and wages. Tellingly, the US Federal Reserve Bank has become less vocal in its argument that it is all transient.

We expect Central Banks will continue to take steps towards reducing monetary stimulus. Economic growth should be strong enough to allow this, and inflation should be strong enough to require it. However, removing this impetus will likely cause some challenges for equity markets, the alternate scenario however doesn't seem like a better alternative, i.e. sharper rises in inflation 1 to 2 years from now.

Outlook

Portfolio positioning is complicated in the current environment, though Alphinity continue to be led by where they see earnings leadership combined with attractive valuations. In the Resource sector, this has seen Alphinity follow their exit of Fortescue and Oz Minerals a few months ago with further trimming of the position in Rio Tinto. As a result, the portfolio is now underweight iron ore. While the fund's exposure to BHP has also reduced, Alphinity see greater earnings offsets for it as a result of the Group's product mix and it remains one of the core resource exposures for the portfolio.

Alphinity added another diversified miner, South 32, to the portfolio following the divestment of its troublesome South African thermal coal business. The company's earnings leverage to alumina, and especially aluminium, has increased substantially and Alphinity see further significant earnings upgrade potential for the company.

Outside of the Resource and Energy sectors, the portfolio adjustments have been more gradual. In the Insurance sector Alphinity complemented their holding in global insurer QBE with the more domestically focused Suncorp; and in Transport Alphinity added logistics provider Qube Holdings. Alphinity have added to their holdings in global asset manager Macquarie Group, health insurer Medibank Private and building materials producer James Hardie following strong trading updates. These additions and increases have been partly funded by trimming positions in conglomerate Wesfarmers and industrial property developer Goodman Group after both exhibited strong performance.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0345AU
AMP Flexible Super - Retirement account	AMP1617AU
AMP Flexible Super - Super account	AMP1608AU
CustomSuper	AMP0345AU
Flexible Lifetime - Allocated Pension	AMP0629AU
Flexible Lifetime - Term Pension	AMP0936AU
Flexible Lifetime Investment**	AMP0834AU
Flexible Lifetime Investment (Series 2)**	AMP1639AU
SignatureSuper	AMP0805AU
SignatureSuper Allocated Pension	AMP1164AU

**Closed to new and existing investors

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