Specialist Australian Small Companies

Quarterly Investment Option Update

31 March 2023

Aim and Strategy

The strategy aims to provide total returns (income and capital growth) after investment fees and before tax, above the S&P/ASX Small Ordinaries Accumulation Index, on a rolling 3-year basis by using a multi-manager approach. 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 this product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Australian Shares
Suggested minimum investment timeframe	7 years
Standard Risk Measure	7/Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
Global Shares	6.10
Australian Shares	87.36
Listed Property and Infrastructure	1.02
Cash	5.51

Sector Allocation	%
Consumer Discretionary	19.22
Materials	12.84
Information Technology	12.83
Industrials	12.61
Financials	10.02
Energy	8.26
Health Care	6.50
Communication Services	6.29
Cash	5.51
Consumer Staples	4.42
Real Estate	1.49

Top Holdings	%
Technology One Ltd	2.49
IRESS Ltd	2.30
Johns Lyng Group Ltd	2.05
Eagers Automotive Ltd	1.81
AUCKLAND INTL AIRPORT	1.77
Capricorn Metals Ltd	1.67
Deterra Royalties Ltd	1.65
Viva Energy Group Ltd	1.59
PSC Insurance Group Ltd	1.58
Navigator Global Investments L	1.56

Fund Performance

The Fund posted a positive return and marginally underperformed its benchmark over the March quarter. There was significant divergence in the Fund's underlying managers' performance. Three of the four managers gained ground as well as outperforming the benchmark, with Spheria and Eiger faring the best on a relative basis. However Perennial was a significant drag on Fund returns. The Fund continues to outperform its benchmark over the longer term, including over 3 and 5 years, and since inception.

Sector allocation enhanced relative returns, whereas stock selection detracted during the period. Regarding sector allocation, the main contributors were the underweight exposure to real estate and overweight position in consumer discretionary. The main detractor was an overweight position in IT.

Turning to stock selection, positions in financials and communication services accounted for most of the underperformance. On the flipside, industrials and IT stock positions were strong contributors.

The largest individual contributor to relative performance was the overweight holding in offroad supplies retailer ARB Corp (+23%). The company's shares were buoyed after the company released its market update for the second half of 2022 and confirmed ongoing customer orders continue to be strong, which was well received by investors. Other major contributors included overweight positions in vehicle dealership company Eagers Automotive (+29%) and transport payment solutions company A2B Australia (+41%).

The largest individual detractor from relative performance was the underweight exposure to lithium producer Liontown Resources (+96%), which soared after Albemarle Corporation offered to acquire the company at a significant premium. Other detractors included an overweight position in marketing and communications business Enero Group (-33%) and a nil position in biopharmaceutical company Neuren Pharmaceuticals (+69%).

Market Review

Australian shares rose by 3.5% in the March quarter, as measured by the ASX200 total returns index. Local shares were driven by the same themes as the broader global market, with the likely path of central banks being the prime influence over economic fundamentals. In January, local shares gained ground on the belief central banks were close to easing off the brakes as inflation showed further signs of moderating. February however saw some shine taken off markets as central banks re-emphasised their priority to deal with inflation above other factors. March subsequently saw a marked change of tone as financial troubles emerged in US regional banks, then spilt into Switzerland with major bank Credit Suisse requiring a rescue by UBS and their central bank. While these events created volatility, Australian shares rallied into the final weeks of the quarter amid hopes of global, and indeed local pauses to rate hikes. This eventuated in very early April, as the RBA finally paused rates after a year of hikes.

The half yearly corporate reporting season also played out, yielding mixed results, generally moderate earnings growth, rising dividends and some cautious outlook statements amid continued inflation. Dividends also rose. Bank earnings, which make up a large proportion of the Australian market, showed signs of peaking as economic conditions continue to toughen. Bad debts also unsurpisingly rose. Cyclicals meanwhile outperformed, though with consumers tightening their belts some shine may likely come off the sector as economic growth faces further headwinds.

Outlook

Corporate earnings in Australia remain reasonable, though should be considered in real terms, given ongoing high levels of inflation. Businesses meanwhile remain focussed on cost pressures, which are generally being passed onto customers. As we approach a likely phase of lower economic growth, with further volatility likely to ensue, it's worth remembering that the current stage of the economic cycle is well known by markets and priced in, at least to some degree. The relative stability of Australian dividends over the long-term and their ability to generate a growing, tax effective income stream should also be kept in mind. Over the long-term, we believe Australian shares will continue to rise, with volatility being necessary to provide opportunities for greater returns.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP1005AU**
Flexible Lifetime - Investments (Series 2)	AMP1411AU**
SignatureSuper	AMP0951AU
SignatureSuper - Allocated Pension	AMP1147AU
SignatureSuper Term Pension	AMP1147AU*

*Closed to new investors

**Closed to new and existing investors

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