

Specialist Australian Small Companies

Quarterly Investment Option Update

30 September 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	%
International Shares	7.47
Australian Shares	85.39
Listed Property and Infrastructure	1.73
Cash	5.41

Sector Allocation	%
Consumer Discretionary	19.29
Industrials	13.51
Information Technology	12.60
Energy	10.84
Materials	10.16
Financials	9.19
Health Care	8.12
Communication Services	5.99
Cash	5.41
Consumer Staples	2.74
Real Estate	2.15

Top Holdings	%
Johns Lyng Group Ltd	2.44
Paladin Energy Ltd	2.07
New Hope Corp Ltd	2.04
Auckland International Airport	2.03
ARB Corp Ltd	2.01
Life360 Inc	2.00
Karoon Energy Ltd	1.95
Boss Energy Ltd	1.76
Eagers Automotive Ltd	1.70
Collins Foods Ltd	1.67

Fund Performance

The Fund marginally lost ground and outperformed its benchmark over the September quarter, in a period when small companies lagged their larger counterparts overall. There was significant divergence in the Fund's underlying managers' returns. Two of the four managers delivered positive returns and three managers outperformed the benchmark, led by Eiger and Eley Griffiths. However Spheria was a drag on the Fund returns. The Fund continues to outperform its benchmark over the longer term, including over 3 and 5 years, and since inception.

Sector allocation contributed strongly to relative returns, whereas stock selection detracted during the period. Regarding sector allocation, the main contributors were the underweight exposures to materials and real estate and overweight position in energy. The only detractor was an overweight position in health care.

Turning to stock selection, positions in IT accounted for most of the underperformance. On the flipside, the Fund's industrials and health care stock positions were strong contributors.

The largest individual contributor to relative performance was a nil position in lithium exploration company Core Lithium (-55%), which amid ongoing weakness in the lithium price saw its share price come under further pressure after the company downgraded its production guidance for FY2024 as well as announcing a surprise capital raising during the period. Other major contributors included overweight positions in building services provider Johns Lyng Group (+24%) and uranium miner Boss Energy (+56%).

The largest individual detractor from relative performance was the overweight position in financial services software company IRESS (-43%), which fell heavily after releasing full year results that saw large downgrades to forward earnings expectations, as the group continues to reset its business and sell off non-core assets. Other detractors included underweight positions in medical imaging IT provider Pro Medicus (+27%) and wealth platform provider HUB24 (+28%).

Market Review

Australian shares finished the September quarter down by 0.8%, as measured by the ASX200 total return index. June earnings reports were generally better than expected, though many forecasts were still revised down amid a challenged economic backdrop, as cost pressures continue to impact bottom lines. Retailers in particular warned of testing conditions ahead, with consumers having heavily tightened their purse strings in recent months. Other themes included building material companies continuing to benefit from strong activity, albeit with some warning of a slowdown; insurers seeing margin improvement at the expense of customers due to premium increases; and home borrowers generally being able to maintain their payments (though with a rise in arrears notable in some non-bank lenders). Partly reflecting the cautious outlook guidance, consensus earnings expectations have been revised down, with many analysts expecting a small fall in earnings for FY24. Outside of the reporting season, Australian shares were driven by broader global themes, i.e., earlier in the quarter shares generally rose on the back of optimism around a global soft landing, then subsequently moved lower on the back of inflation not falling as fast as markets had hoped.

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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