



Specialist Geared Australian Share

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange. The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is to provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling three-year basis. The strategy invests in a diversified portfolio of equities listed on the Australian Securities Exchange (ASX). The investment portfolio is geared, which allows it the ability to borrow in order to increase the amount that can be invested. The aim of gearing is to contribute more capital and to provide greater exposure to the Australian share market. Underlying managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. The strategy may also invest up to 10% in cash. However, in certain market conditions the strategy may hold higher levels of cash and short selling may also be used. Any currency exposure will be hedged back to Australian dollars using derivatives, and they may also be used to gain equity market exposure.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Australian Shares
Suggested minimum investment timeframe	7 years
Relative risk rating	Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	100
Cash	0

Actual Allocation	%
International Shares	2.52
Australian Shares	91.82
Listed Property and Infrastructure	3.26
Cash	2.40

Sector Allocation	%
Financials	23.74
Materials	15.41
Unclassified	14.93
Industrials	9.73
Consumer Discretionary	6.47
Real Estate	5.82
Energy	4.48
Health Care	4.38
Consumer Staples	4.19
Communication Services	3.63
Information Technology	3.60
Cash	2.73
Utilities	0.88

Top Holdings	%
SPDR S&P/ASX 200 Fund	14.93
BHP Group Ltd	6.44
COMMONWEALTH BANK AUST	5.57
National Australia Bank Ltd	5.07
Westpac Banking Corp	3.67
Australia & New Zealand Banking Group Ltd	2.90
Macquarie Group Ltd	2.72
Brambles Ltd	2.50
CSL Ltd	2.44
Aristocrat Leisure Ltd	2.03

Fund Performance

The Fund posted a positive absolute return (before fees) and outperformed its benchmark over the June quarter. All of the Fund's three underlying managers posted positive returns and two of them, Vinva Investment Management and AMP Capital, outperformed the benchmark. The Fund also continues to outperform its benchmark over the longer term, including over 1, 2, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

The main driver of the Fund's outperformance was gearing, as Australian shares surged over the period. However, both sector allocation and stock selection detracted modestly from relative returns. Regarding sector allocation, the main detractors from relative returns were underweight positions in financials and health care, and an overweight position in information technology. The main positive contributors were underweight positions in utilities and real estate.

Regarding stock selection, the main detractors from relative returns were information technology and financials, while the main positive contributors were consumer discretionary, real estate and industrials. The largest individual detractors from relative returns were overweight positions in Link Administration Holdings and Macquarie Group, and an underweight position in Commonwealth Bank. Record-keeping technology company Link Administration Holdings plunged (-32.3%) after releasing a disappointing trading update which showed its UK business has been negatively impacted by ongoing Brexit issues. Investment bank Macquarie Group fell (-0.2%) despite announcing record results for the full-year 2019, as its earnings are expected to be "slightly" lower next year. Meanwhile, Australia's largest bank Commonwealth Bank enjoyed a relief rally (+17.2%), despite reporting lacklustre results for Q3 2019.

The largest positive contributors to relative returns were overweight positions in REA Group and SEEK, and an underweight position in Scentre Group. Online real estate advertising company REA Group soared (+28.5%) after reporting strong Q3 2019 results despite difficult market conditions, and as the re-election of the Coalition Government provided some certainty to the property market. Employment giant SEEK rallied (+20.6%) after reaffirming its revenue growth guidance for the full-year 2019. Shopping centre owner Scentre Group fell (-6.6%) after completing a share buyback of over 7 million shares and as investors lowered their exposure to retail real estate due to the growing threat from online shopping.

Market Review

Australian equities surged in the June quarter, the S&P/ASX200 total return index finishing up by 7.97%. Speculation of official interest rate cuts drove markets early in the quarter, despite uncertainty around the Federal Election and ongoing housing market falls. In May, the market was pushed higher on the Coalition's "surprise" election victory, which removed risks around changes to the use of franking credits, which are particularly important to many Australian investors. Comments from the RBA continued to grow more dovish, culminating in a rate cut in early June to a historically low 1.25%. This, along with the possibility of further cuts, spurred on Australian markets through the remainder of June. Communication services, financials and health care were top performers over the quarter, while energy and utilities stocks were generally behind the pack.

Outlook

Australian shares remain exposed to global economic uncertainty, despite the greater visibility imparted by the recent return of the Liberal Coalition to government. Much of this uncertainty is outside the Australian government's control.

The Reserve Bank of Australia cut the cash rate to an historically low 1.25% in early June, with communications suggesting further likely reductions, which is positive for equities and should feed into earnings. However, looking ahead, generally higher valuations and increased global economic uncertainty have increased the shorter-term downside risk. However, this does not mean momentum cannot carry the market higher. In the current environment, investors should benefit by being highly selective and focussing on companies with robust business fundamentals.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0820AU
AMP Flexible Super - Retirement account	AMP1352AU
AMP Flexible Super - Super account	AMP1481AU
CustomSuper	AMP0820AU
Flexible Lifetime - Allocated Pension	AMP0819AU
Flexible Lifetime - Investments (Series 1)	AMP0850AU*
Flexible Lifetime - Investments (Series 2)	AMP1416AU
Flexible Lifetime - Term Pension	AMP0924AU
SignatureSuper	AMP0823AU
SignatureSuper - Allocated Pension	AMP1154AU

*Closed to new investors

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