

Alphinity Australian Share

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

The strategy aims to outperform its benchmark 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

Investment Option Overview

Investment category	Aust. Shares
Suggested investment timeframe	At least 5 years
Relative risk rating	6/ High
Investment style	Growth

Sector Allocation	%
CONSUMER DISCRETIONARY	2.57
CONSUMER STAPLES	8.70
ENERGY	4.72
FINANCIALS EX PROPERTY	34.14
HEALTH CARE	6.39
INDUSTRIALS	7.33
INFORMATION TECHNOLOGY	3.90
MATERIALS	16.11
PROPERTY TRUSTS	6.30
TELECOMMUNICATION SERVICES	1.09

Top Holdings	%
BHP Billiton Limited	7.72
CSL Limited	6.39
Commonwealth Bank of Australia	6.32
Australia And New Zealand Banking Group	5.47
National Australia Bank Limited	5.12
Macquarie Group Ltd	4.59
Westpac Banking Corporation	4.29
Wesfarmers Limited	4.10
Woodside Petroleum Limited	3.69
Rio Tinto Limited	3.14

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	96.80%
Cash	0%	3.20%

Portfolio Summary

- Rest of the world, especially emerging markets, are feeling the effect of the Fed raising interest rates to keep the US economy from overheating
- Market is currently struggling to work out which sectors and stocks will provide leadership in the months and year ahead

Investment Option Commentary

The best returns came from global registry Computershare, Caterpillar dealer Seven Group and gas producers Beach Energy and Woodside Petroleum. Offsetting these however was the position in global gaming company Aristocrat and being underweight or not owning global pallet renter Brambles, domestic incumbent telco Telstra or gas producer Origin Energy, all of which outperformed the market during the quarter.

Market Commentary

Another month, another set of records for the US equity market. So what is there to worry about, aside from the fact that the Australian equity market has been struggling to keep up? Quite a few things, in the Fund Manager's view. While an end to the run in the US market would be unlikely to be positive for global equities, a continuation of the run

The Australian Resource sector is also supported by strong balance sheets across the board after three years of strong cash generation and asset rationalisation. The problem with "secular growth" companies is that they already trade at record premiums after a decade of ultralow interest rates. While it's never easy to pick the winners or even the general direction of the equity market, it does feel as if the risks are building. It's increasingly difficult to point to any particular part of the market that doesn't face increased uncertainty.

Outlook

Following solid outperformance and absolute returns over the last year or so, the last couple of months have proved a little more challenging. The combination of a few owned stocks that disappointed in the August reporting season, a few previous losers (that Fund does not own) that have rebounded since June as investors try to anticipate the bottom in these stocks, together with the ongoing momentum in the burgeoning Australian Tech sector despite already lofty valuations, have proved difficult to offset despite the fund manager's fair share of winners.

The market is currently struggling to work out which sectors and stocks will provide leadership in the months and year ahead. While Alphinity continue to monitor and form their own view on these issues, their main focus remains on identifying quality, attractively-valued companies in an earnings upgrade cycle. Of course, broader macro issues are always an important factor in providing headwinds and tailwinds for certain sectors and companies. However, over the years Alphinity have found that focusing on an individual company's earnings outlook has enabled us to identify the winners from both a company and a sector perspective.

So, where is the manager currently seeing earnings upgrades? The energy sector is clearly leading, boosted by the strong oil price and Alphinity continue to see room for consensus expectations, and thus share prices, to move higher. The Resources sector is a bit more mixed but the prices of bulk commodities, iron ore and coal, have been largely stable to rising, especially in \$A. Typically it's proven correct to be overweight this sector when China stimulates its economy as is presently happening. While the stimulus is occurring because of the trade war and some indications of a slowing economy, Alphinity continue to see the sector as attractive, not the least when also considering the inflation outlook previously discussed.

Banks continue to look underwhelming to Alphinity, with the Royal Commission only adding to the broad-based slowdown in credit growth that was already underway. Individual stocks with unique earnings drivers are typically behind consistent outperformance, and Computershare, Macquarie Group, Goodman Group, Suncorp and Woodside Petroleum are some companies that presently display the characteristics Alphinity is looking for.

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

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