AMP Alternative Index*

Quarterly Investment Option Update

30-June-2016

**This option is named "Super Easy Alternative" in the AMP Flexible Super – Super and AMP Flexible Super – Retirement products.*

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1787AU
AMP Flexible Super – Choice (Super)	AMP1793AU
CustomSuper	AMP1817AU
Flexible Lifetime – Allocated Pension	AMP1811AU
Flexible Lifetime – Super	AMP1817AU
SignatureSuper	AMP1805AU
SignatureSuper – Allocated Pension	AMP1799AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & Strategy: To achieve maximum total return by investing in Australian and international bonds. The portfolio applies a wide range of diverse strategies, concentrating on two sources of return: sector allocation and rotation, and "bottom up" credit analysis for securities. Sector allocation is driven by the manager's short-term and long-term economic outlook based on fundamentals such as productivity and interest rates. "Bottom up" credit analysis assesses the quality of securities based on cash flows, capital structure and qualitative factors of the issuer, and industry dynamics. Other portfolio strategies include duration, relative value analysis and security selection. The portfolio invests in indirect and direct government, corporate, mortgage and other fixed interest securities. It invests predominantly in investment grade securities but may also invest in non-investment grade fixed interest securities and emerging market debt. The benchmark is comprised of 50% Barclays Capital Global Aggregate Bond Index (Hedged into Australian dollars) and 50% UBS Australian Composite Bond Index.

Investment category: Alternatives

Suggested Investment Timeframe: 5 – 7 years

Relative Risk Rating: Medium

Investment Style: Actively managed, defensive profile with focus on capital protection and income generation

Underlying Investment	Net Exposure
US Large Cap Equities	18%
US Small Cap Equities	12%
European Equities	10%
Emerging Market Equities	-10%
US 10 Year Treasuries	-35%
US 2 Year Treasuries	137%
US Dollar	-4%

Market Commentary

Global equities rose for most of the second quarter of 2016 amid a rally in crude oil prices and easing concerns about China's economy. However, a UK referendum vote near quarter-end to leave the European Union (EU)—Brexit—rattled global financial markets. In broad terms, developed-market equities advanced and outperformed their emerging-market peers. US economic data released during the second quarter were generally solid. First-quarter economic growth estimates were revised higher, and surveys of the manufacturing and services sectors remained in expansionary territory during the April–June span. However, unexpectedly weak May data for job gains helped persuade the US Federal Reserve to keep rates unchanged at its June meeting. In Europe, the immediate effects of the Brexit vote included a sharp drop in the UK stock market and the British pound hitting a three-decade low versus the US dollar. At period-end, much was still unclear surrounding the country's future leadership and the process for leaving the EU. Elsewhere in Europe, the eurozone's first-quarter economic growth rose, its unemployment rate held steady in May and its annual inflation rate rose above the zero level in June after two consecutive declines. Japan's gross domestic product (GDP) grew more than expected in the first quarter. Its annual inflation rate dropped in April and May. The Bank of Japan decided against further quantitative easing measures during the second quarter.

In emerging markets, China's GDP growth slowed marginally in the first quarter of 2016 compared to the previous quarter, but it remained within policymakers' target range. China's manufacturing sector witnessed a lower growth rate, while the country's purchasing managers' index remained in expansionary territory. Brazil's recession became the longest since the 1930s amid political and economic turmoil, as the country's economy continued to contract in the first quarter. However, Brazil posted a current account surplus in April, its first in seven years.

Investment Option Commentary

After entering Risk On mode at the end of March, the investment option has remained in Risk On mode for the entire quarter. Performance for the quarter was positive, with 2 out of the 3 months positive. Losses in June were driven by long positioning in Europe which was harmed by Brexit, and short positioning in Emerging Markets, which continued its rally. Long positions in US Large and Small Cap were strong contributors to performance for the quarter, while Treasuries and the US Dollar positions had little contribution. During the quarter, the investment option increased its long exposure to US Large Cap, while reducing a long position in Europe and increasing a short position in Emerging Markets. This has resulted in the fund being concentrated in a long US Equity position. Treasury positions remain modest and positioned for a steeper yield curve. Given the low gross exposure, we do not expect Treasuries to be a large contributor to returns. The investment option has remained neutral.

Outlook

We believe that Brexit will lead to a pickup in equity market dispersion as well as elevated capital inflows into North American equities. We are currently more constructive on our managers' ability to generate alpha than on the near-term performance of the equity markets. We continue to favor low-net and uncorrelated long/short equity strategies that rely more on alpha than beta. The event driven opportunity set is expected to remain healthy as companies proactively pursue value enhancing actions (spin-offs, buybacks, etc.) to avoid being targeted by activists. Merger arbitrage spreads remain attractive while special situations and activism will be more equity market dependent. Sharp selloffs followed by sharp rallies in credit markets are providing trading opportunities for long/short credit managers but have also increased the risk of getting whipsawed. Distressed and less liquid special situation names continue to underperform. In structured credit, yields look attractive, but near term technicals remain challenging. Demand for private credit is increasing. Outlook for growth in developed markets, the corresponding policy action, and the resulting market reaction all remain highly uncertain, presenting challenges for Discretionary Macro managers. Emerging Markets continue to present a favorable environment with idiosyncratic opportunities in Brazil, Mexico, Greece, Venezuela, and Argentina. Trend followers are positioned to perform well in a volatile market environment.