AMP Capital Equity

Quarterly Investment Option Update

30 June 2016

Aim and Strategy

Aim and strategy: To provide high returns over the long term while accepting high levels of volatility in returns, by investing in a portfolio of shares listed on the Australian Securities Exchange.
The portfolio aims to provide returns, after costs and before tax, above the S&P/ASX 200 Accumulation Index.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0468AU
AMP Flexible Super - Retirement account	AMP1324AU
AMP Flexible Super - Super account	AMP1454AU
CUSTOM SUPER	AMP0468AU
Flexible Lifetime - Allocated Pension	AMP0598AU
Flexible Lifetime - Term Pension	AMP0898AU
Flexible Lifetime Investment	AMP0018AU
Flexible Lifetime Investment (Series 2)	AMP1394AU
METCASH SUPERANNUATION PLAN	AMP0468AU
Signature Super	AMP2047AU
Signature Super Allocated Pension	AMP2048AU

Top Ten Australian Shares	%
Commonwealth Bank of Australia	9.60
Westpac Banking Corp	6.12
National Australia Bank Ltd	5.17
Telstra Corp Ltd	4.46
Australia & New Zealand Banking Group Ltd	4.21
BHP Billiton Ltd	4.02
Westfield Corp	3.23
Rio Tinto Ltd	2.90
Goodman Group	2.80
GPT Group/The	2.63

Industry Exposure	%
Financials	39.91
Materials	14.02
Cash	7.14
Health Care	6.82
Industrials	6.37
Consumer Staples	5.97
Telecommunication Services	5.77
Consumer Discretionary	4.86
Utilities	4.58
Energy	2.67
Information Technology	1.88

Investment Option Overview

Investment category	Australian Equities
Suggested investment timeframe	5 - 7 years
Relative risk rating	High
Investment style	Growth

Asset Allocation	Benchmark	Range (%)
Australian Shares	100	80-100
Cash	0	0-20

Portfolio Summary

- The Fund's underperformance during the quarter was driven by an underweight allocation to the mining sector and stock selection in the energy and gaming sectors
- Australian share markets rose over the quarter; materials stocks appreciated with commodity prices and smaller companies performed strongly
- Australian shares are likely to improve from current levels as the effect of slumping resource sector profits recedes, but may well lag the wider global market

Investment Option Commentary

The AMP Capital Equity Fund underperformed the S&P/ASX 200 Index largely due to stock selection.
The Fund's underperformance was driven by an underweight position in the mining sector as well as stock selection in the energy and gaming sectors. The largest positive contributor to performance was the overweight position in the building materials sector, followed by stock selection decisions in the transport sector along with an underweight position in the food & beverage sector.
At the security level, the largest positive contributors to performance were overweight positions in James Hardie Industries and OceanaGold together with zero holdings in Qantas Airways. James Hardie Industries outperformed during the period after it reported better than expected earnings for the March quarter. OceanaGold's outperformance followed an increase in the price of gold due to the US Federal Reserve's decision to keep rates on hold coupled with the leave outcome from Britain's EU referendum. The Qantas Airways share price declined significantly over the quarter after it provided a disappointing trading update in which it confirmed increasing pressure on ticket prices from greater competition.
The largest performance detractors included underweight positions in Aristocrat Leisure and CSL plus overweight exposure to Blackmores and QBE Insurance Group. Aristocrat Leisure's share price soared on the release of a better than expected profit result for the half year to March 2016. A series of approvals from global drug regulators for the sale of new products supported CSL's share price over the course of the quarter. The price of Blackmores' shares was impacted by the introduction of new regulations in China that impose greater restrictions over foreign products bought and sold through cross-border channels. The QBE Insurance Group share price suffered from its exposure to the outcome of the UK's referendum regarding EU membership.

Market commentary

Australia's S&P/ASX 200 Accumulation Index rose over the quarter, closing higher by 3.9%. The materials sector did particularly well amid improved commodity prices relative to the depths of early 2016. Australian economic figures are still generally positive - yet unexciting, and the RBA seems to be maintaining a reasonably dovish undertone in its wording. International investors continue to be wary of macro-prudential intervention by governments and potential further changes to tax (though this is a risk to the positive-side too, particularly with smaller companies). Small-caps yet again outperformed the broader market, returning 5.8% as measured by the small S&P ASX Small Ordinaries Accumulation index.

Outlook

Australian shares are likely to improve from current levels as the ill effects from slumping resources profits wash through the market. Interest rates remain low and growth is gradually rebalancing away from the resources sector. However, Australian shares are likely to lag their global counterparts as a weak commodity backdrop weighs on growth for a while yet. It is expected that the ASX 200 will rise to around 5700 by end 2016.
The portfolio continues to favour companies with structural growth profiles and defensive earnings over cyclical businesses, as well as stocks with significant exposure to more attractive economic conditions including the US. At the macro level, we expect global interest rates to remain relatively low with the US Federal Reserve holding off any hikes in interest rates until later in the year at the earliest. The Fund maintains a preference for dividend growers over passive yield plays. Despite the recent rally in commodity prices, we continue to expect persistent downward pressure on commodity prices. Accordingly the portfolio continues to hold an underweight exposure to the mining sector. Key sector overweights include building materials, gaming and utilities while the portfolio is underweight the diversified financials, energy and food & beverage sectors.

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