BlackRock Scientific Hedged International Share

Quarterly Investment Option Update

30-June-2016

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1336AU
AMP Flexible Super – Choice (Super)	AMP1465AU
CustomSuper	AMP0466AU
Flexible Lifetime – Allocated Pension	AMP0622AU
Flexible Lifetime – Investments (Series 1)	AMP0841AU
Flexible Lifetime – Investments (Series 2)	AMP1401AU
Flexible Lifetime – Super	AMP0466AU
Flexible Lifetime – Term Pension	AMP0911AU
SignatureSuper	AMP0788AU
SignatureSuper – Allocated Pension	AMP1140AU

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.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

Overview

Aim & Strategy: To provide returns before fees, that exceed the MSCI World (ex-Australia) Index (unhedged to the Australian dollar with net dividends reinvested), over rolling 3 year periods, while maintaining a similar level of investment risk to the index. Investment risk is managed by diversifying across the world's developed countries and currencies, and by holding the shares of a large number of companies within each country. This option is not hedged to the Australian dollar.

Investment category: Global equities

Suggested Investment Timeframe: 7+ years

Relative Risk Rating: High

Investment Style: Style neutral

Asset Allocation	Benchmark (%)	Range (%)
International Shares	100	99-100
Cash	--	0-1

Holdings

Industry Exposure	%
Consumer Discretionary	12.57%
Consumer Staples	6.26%
Energy	8.27%
Financials	19.04%
Health Care	17.46%
Industrials	8.26%
Info Tech	15.37%
Materials	5.60%
Telecommunications	4.30%
Utilities	2.87%

Regional Exposure	%
Austria	0.43%
Belgium	0.43%
Canada	2.59%
Denmark	1.47%
Finland	1.34%
France	3.98%
Germany	2.82%
Greece	0.00%
Hong Kong	0.65%
Ireland	0.00%
Israel	0.07%
Italy	1.66%
Japan	8.87%

Netherlands	1.24%
New Zealand	0.08%
Norway	0.80%
Portugal	0.32%
Singapore	0.59%
Spain	2.03%
Sweden	1.08%
Switzerland	2.27%
UK	6.45%
US	60.82%

Top Ten Securities	%
APPLE COMPUTER INC	1.97%
ALTRIA GROUP INC	1.31%
CISCO SYSTEMS INC	1.17%
MICROSOFT CORP	1.14%
COMCAST A CORP	1.13%
JPMORGAN CHASE & CO	1.11%
JOHNSON & JOHNSON	1.08%
SIMON PROPERTY GROUP REIT INC	1.07%
GENERAL DYNAMICS CORP	1.00%
NOVO NORDISK CLASS B	1.00%

Market Commentary

The MSCI World Ex Australia Index rose 4.38% in unhedged AUD terms and rose 1.69% in fully hedged to AUD terms during the second quarter. Global financial markets traded in a relatively benign fashion for much of the June quarter. In late June, however, volatility increased sharply mostly reflecting the result of the UK “Brexit” referendum where the UK public voted to leave the European Union. Uncertainties related to the US Presidential election were also noteworthy. Prior to the “Brexit” result, the apparent lull in volatility perhaps reflected a lessening of concerns regarding global growth despite the IMF issuing a modestly downwardly revised forecast for global growth in 2016. Perhaps most important in occasioning that turnaround was a lessening of anxieties regarding a sharp decline in Chinese growth; some satisfactory US labour market data indicating continuing solid employment growth (at least until the release of weaker than anticipated May payroll data in early June); and some slightly better indications of activity growth in Europe.

Markets had also judged that, by and large, the major central banks (and the Chinese authorities) retained a disposition to adjust policy (or expectations thereof) so as to assist the global economy to meet the challenges presented by any emergent headwinds to growth. Indications from the US Federal Reserve at its June meeting that the hurdle for further policy rate hikes might be somewhat higher in the wake of the weaker May payroll result was in some ways emblematic of that adjustment of policy expectations. In a similar vein the ECB surprised with a somewhat more aggressive easing stance with the announcement and subsequent implementation of the corporate sector purchase programme (CSSP). Perhaps an exception to the still apparent potency of monetary policy is Japan with the Bank of Japan’s decision to refrain from any further stimulus at its meeting on April 28. While markets had not anticipated any further move in policy rates deeper in to negative territory they had anticipated some measures to increase the money base and some ‘emergency lending’ measures from the BoJ. When these measures were not enacted the Japanese equity market fell sharply while the JPY appreciated.

Developments in major equity markets was mixed: The UK FTSE (interestingly given the “Brexit” result) ended the quarter with a solid gain and US S&P500 was modestly firmer while the German (DAX) and Japanese (Topix) markets registered declines. To some extent these developments in equity markets mirrored currency moves with the GBP sharply lower on the quarter, the EUR modestly firmer and the JPY significantly firmer. US credit markets were largely unchanged (in spread terms) while European spreads widened on “Brexit” concerns. Major commodities were mostly stronger with oil and iron ore firmer and gold sharply higher post the “Brexit” referendum result.

Investment Option Commentary

Over the quarter, the international stock selection strategy underperformed its benchmark. Cross Border insights in the Canada and Far East Asia detracted the most, even though the insights contributed strongly in Japan and Europe. However Europe also saw detraction from Momentum, Sentiment and Mid-horizon insights, with Mid-horizon insights also detracting in the US. Quality insights were additive overall, but was not enough to lead to positive fund performance.

Positive contributors to performance included overweights to American Water Works and McKesson Corporation.

Water utility American Water Works continued to rise steadily through the quarter, announcing higher earnings, dividends and reaffirming guidance. The overweight position was taken as most insights were positive, in particular Sentiment, Quality and Valuation.

Generic pharmaceutical company McKesson drifted upwards after expanding its long-term distribution agreement with Walmart to market its generic drugs. Valuation, Sentiment and Quality insights led to the overweight.

Detractors from performance included overweights to Peugeot and Unicredit.

Car maker Peugeot was generally flat, until the surprise Brexit vote which caused sharp falls in many European names. Positive Valuation, Sentiment and Quality insights drove the overweight position, tempered by Cross Border Thematics.

Worldwide banking service provider Unicredit SPA, already under pressure earlier in the year from concerns around non-performing loans in Italy, moved lower through the quarter; announcing a new CEO and a capital raising. Like many European banks it was also adversely affected by the Brexit vote. Momentum and Value helped contribute to the overweight.

Outlook

Its summer in the US, offering the promise of lazy, hazy days filled with rest and relaxation—but also sudden thunderstorms, hurricanes, typhoons and excessive heat waves. In weather, low pressure systems typically indicate a chance of precipitation, and we appear to be nearing a financial low pressure system. The likelihood of an immediate Federal Reserve (Fed) hike has gone down, potentially providing a tailwind for risky assets in the short term. But given the already expensive state of those assets, the chance of more volatility over the coming weeks is reason enough for caution.

Thunderstorms Brewing

We have downgraded global equities to neutral. While a more dovish Fed may lead to some short-term boost to risky assets, stocks still face several obstacles. Those include elevated valuations (particularly in the United States), a potential Brexit and, yes, the fact that the Fed is still on course for raising interest rates though the pace it expects to do so continues to be pushed back. Meanwhile, risk aversion ahead of the U.K. vote on whether to leave the European Union (EU), along with easy central bank policies, is pushing global bond yields to ever-lower levels and pausing the “divergence” trend that has been driving global yields for two years.

A Break in the Clouds

Some good news: There are nascent signs that inflation is inching up. Much of the world remains stuck with low growth and low (in some countries, negative) inflation and will be for some time, we believe. However, there are signs of higher levels of inflation ahead—and that may be a positive in a world where deflation has been the greater threat.

Summertime and the Investing Is Not Easy

What does a low-growth world, pricey stock valuations and a more cautious Fed add up to? Expect low returns, spikes in volatility and a need to cast an ever-wider net for yield. As a result, we’re more cautious on equities and risky assets in general. At the same time, we have upgraded U.S. Treasuries and fixed income overall to neutral. Negative rates outside the U.S. are increasing demand for longer-dated Treasuries. We prefer Treasury Inflation-Protected Securities over nominal Treasuries. Slowing policy divergence should limit upward pressure on the dollar. We like gold as a diversifier.