

Goldman Sachs Australian Equities

Quarterly Investment Option Update

30-June-2016



Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1341AU
AMP Flexible Super – Choice (Super)	AMP1470AU
CustomSuper	AMP0766AU
Flexible Lifetime – Allocated Pension	AMP0625AU
Flexible Lifetime – Super	AMP0766AU
Flexible Lifetime – Term Pension	AMP0918AU
SignatureSuper	AMP0791AU
SignatureSuper Allocated Pension	AMP1145AU
Flexible Lifetime Investment	AMP0833AU
Flexible Lifetime Investment (Series 2)	AMP1406AU
MultiFund Flexible Income Plan	AMP0763AU

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 medium-to-long term capital growth through exposure to companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling three-year periods.

Investment category: Australian shares – core

Suggested Investment Timeframe: 5 – 7 years

Standard Risk Measure: 6/ High

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

Holdings

Industry Exposure	%
Consumer Discretionary	8.49
Consumer Staples	3.48
Energy	13.32
Financial-X-Property Trusts	38.84
Health Care	8.27
Industrials	8.96
Information Technology	6.73
Materials	6.06
Property Trusts	2.17
Telecommunication Services	1.91
Utilities	0.00
Futures	0.00
Cash	1.77

Regional Exposure	%
Australia	100

Top Ten Securities	%
Commonwealth Bank of Australia	11.93
Westpac Banking Corporation	10.77
Australia and New Zealand Banking Group Limited	8.48
Macquarie Group Limited	4.30
Caltex Australia Limited	4.13
Seek Limited	3.78
Resmed Inc CHESS Depository Interests on a ratio of 10 CDIs per ord.sh	3.63
Origin Energy Limited	3.32
Z Energy Ltd.	3.31
Crown Resorts Limited	3.27

Market Commentary

The Australian share market proved relatively resilient in the face of a number of challenges during financial year (FY) 2016.

Despite the UK shocking global markets by voting to exit the UK, the S&P/ASX 200 Accumulation Index actually lifted 3.9% in the June quarter – outperforming the MSCI World Index (1.2%) and the S&P500 (2.5%) – and produced a 0.6% return for FY 2016.

Before Brexit the index had been set to finish higher, having recovered from concerns over depressed commodity prices, contagion spreading from the high-yield credit market and China's economic slowdown.

While the long-term implications of the UK's departure remain unclear, the market took comfort from supportive monetary policy persisting for longer: consensus now forecasts no hikes to interest rates in the US until 2018, cuts are likely in the UK and the EU continues with its quantitative easing (EQ) program unabated.

Defensive sectors were the top contributors for the quarter with Property Trusts up 9.4%, Health Care up 10.3% and Infrastructure stocks up 7.4%.

Gold miners, led by Newcrest (NCM, +35.6%), surged in response to the higher gold price as investors sought safe haven assets, but they weren't alone with large caps BHP Billiton (BHP, +10.6%), Rio Tinto (RIO, +6.6%) and Fortescue (FMG, +37.3%) also rallying.

Investment Option Commentary

The portfolio's overweight holdings within Energy were the best contributors to performance in the quarter. Fuel distributor Z Energy (ZEL, +28.6%) outperformed after its takeover of Caltex New Zealand was given regulatory approval, while Origin Energy (ORG, +13.0%) and Santos (STO, +15.1%) rallied alongside the oil price.

Our underweight to Consumer Staples also contributed with the sector falling 3.6%. Underweight positioning in Woolworths (WOW, -5.5%) and Wesfarmers (WES, -3.3%) drove the outperformance.

In contrast, Metals & Mining was the biggest detractor largely due to the portfolio's underweight to Newcrest (NCM) and BHP Billiton (BHP).

Stock selection within Consumer Discretionary also reduced performance, with overweight holdings Star Entertainment (SGR, -4.9%) and Crown Resorts (CWN, +1.2%) underperforming the wider market.

Elsewhere, the portfolio's underweight to Property Trusts detracted as investors continued to look past the sector's sharp premium to net tangible assets and instead focused on the assets' defensive qualities and strong income generation.

Outlook

The Australian share market's challenging environment overshadows divergent trends in which opportunities are stock and sector specific.

External shocks, such as the UK leaving the EU, the slow-down of China and the potential for extremist politics, will create volatility but are unlikely to have a prolonged impact on our portfolio.

Company earnings profiles appear relatively stable based on fundamentals. Aside from Resources, balance sheets are generally healthy and stimulatory forces (lower interest rates and a weakening Australian dollar) should assist.

Though shares are priced in line with long-term averages based on forward earnings estimates, their valuations are attractive relative to alternatives. The S&P/ASX 200 yields around 4.6% versus 2.0% from the Australian government 10-year bond.

However, we expect economic growth to remain subdued, contrasting trends to widen and volatility to persist. Therefore we focus our portfolio around companies that can prosper in this environment.

We see significant value in certain sectors but believe others to be overvalued based on our earnings expectations. We are overweight in the Consumer Discretionary, Information Technology and Banking sectors, but are underweight Metals & Mining, Property Trusts and Telecommunication Services.

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