AMP Australian Share

Quarterly Investment Option Update

31 March 2017

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling 12 month basis.

The portfolio uses a number of diverse styles including Enhanced Index, Core, Quant, Value and Sustainable Alpha styles to invest. The Enhanced Index approach takes on slightly higher levels of risk, relative to benchmark, than an indexed investment. The Core style is based on the belief that a key driver of share value is a company's ability to grow earnings. The Quant style uses a number of quantitative techniques to target pricing anomalies across a large number of shares using a highly disciplined investment process. The Value approach aims to identify companies that are currently undervalued in the belief that they will offer better returns. The Sustainable Alpha approach addresses environmental, social and governance issues as part of the financial assessment of companies.

Investment style: Multi-style

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0163AU
AMP Flexible Super - Retirement account	AMP1320AU
AMP Flexible Super - Super account	AMP1450AU
CUSTOM SUPER	AMP0163AU
Flexible Lifetime - Allocated Pension	AMP0591AU
Flexible Lifetime - Term Pension	AMP0891AU
Flexible Lifetime Investment	AMP0827AU
Flexible Lifetime Investment (Series 2)	AMP1389AU
Investment Linked Deferred Annuity	AMP0747AU
Investment Linked Regular Premium	AMP0246AU
METCASH SUPERANNUATION PLAN	AMP0163AU
MultiFund Flexible Income Plan	AMP0476AU
Signature Super	AMP0739AU
Signature Super Allocated Pension	AMP1129AU

Investment Option Overview

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

Asset Allocation	Benchmark	Range (%)
Australian Shares	100	90-100
Cash	0	0-10

Top Ten Australian Securities	%
Westpac Banking Corp	8.48
Commonwealth Bank of Australia	8.47
National Australia Bank Ltd	6.43
Australia & New Zealand Banking Group Ltd	5.46
BHP Billiton Ltd	5.33
Wesfarmers Ltd	4.93
CSL Ltd	4.09
Rio Tinto Ltd	3.72
Macquarie Group Ltd	2.75
QBE Insurance Group Ltd	2.75

Industry Exposure	%
Financials	40.56
Materials	17.67
Consumer Staples	8.92
Health Care	6.82
Real Estate	5.12
Consumer Discretionary	4.53
Cash	4.14
Energy	4.10
Telecommunication Services	2.51
Industrials	2.49
Information Technology	1.76
Utilities	1.37
Others	0.00

Portfolio Summary

- The Option posted a positive return over the quarter but underperformed the benchmark.
- The Option's relative underperformance was primarily attributable to the negative impact of stock selection.
- Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting rather than margin expansion.

Investment Option Commentary

The Option posted a positive return over the quarter but underperformed the benchmark. The Option's relative underperformance was primarily attributable to the negative impact of stock selection, although sector allocation also had a negative impact. In terms of sector allocation, the main detractors were overweight allocations to the mining and building materials sectors, and an underweight allocation to the infrastructure sector. In terms of stock selection, the transport, mining and gold sectors were the main sources of underperformance, while the REITs, banks and general industrial sectors were the main contributors to relative performance. In terms of stocks, our best performing positions were overweight positions in Wesfarmers (+9.6%), Treasury Wine Estates (+15.8%) and Star Entertainment Group (+7.4%). The main underperformers were underweight positions in Telstra (-5.6%), Westfield Corporation (-3.6%) and Vicinity Centres (-5.4%).

Market commentary

Australian shares were again strong in line with international shares in the March quarter, with the S&P/ASX 200 Accumulation Index finishing up by 4.5%. Australia's sluggish economic growth and company earnings growth however remain concerns, despite slowly improving consumer confidence. As is often the case, the big four banks were the main contributors to performance, as they continue to reap the rewards of the red-hot Australian residential property market, as well as benefiting from the broader positive sentiment that has been widespread across global share markets over the past few months. Concerns have however been raised by some analysts over the past year or so, including the potential for a property downturn, worries over corporate loan serviceability and falling return on equity due to increased capital holding requirements. There is also still a risk of further macro-prudential measures being implemented, despite added measures announced by APRA (at the end of March) to curb investment property lending, which some have argued were not strong enough.

Outlook

Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting rather than investing back into the business for growth. Banking profitability is likely to continue to be stifled by capital-holding requirements. The mining sector, despite benefitting from a bounce-back in resource prices (in particular iron ore) remains highly susceptible to any pause in activity from China. Defensive companies that historically offer high and stable dividends are likely to continue to underperform in a rising US interest rate environment, so investors will likely benefit by being highly selective and focussing on businesses that are more cyclical and tend to perform well as global economic activity picks up. It is however positive to see non-mining profit expectations for the next year looking stronger compared to a year ago.

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