Ausbil Australian Active Equity

Quarterly Investment Option Update

31-March-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1332AU[1]
AMP Flexible Super – Choice (Super)	AMP1461AU[1]
CustomSuper	AMP1290AU[1]
Flexible Lifetime – Allocated Pension	AMP1279AU[1]
Flexible Lifetime – Super	AMP1290AU[1]
SignatureSuper	AMP1304AU[1]
SignatureSuper – Allocated Pension	AMP1311AU[1]

[1]*This option is closed to new investors only.*

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 outperform the S&P/ASX 300 Accumulation Index over the medium to long term with moderate tax effective income by investing in a portfolio of listed Australian equities that are generally chosen from the S&P/ASX 300 Index. The investment manager seeks to position its portfolio towards those sectors and stocks which they believe will experience positive earnings revisions and away from those they believe will suffer negative revisions. At any time, the portfolio is tilted towards stocks which afford the most compelling opportunities for appreciation over the coming 12 months. Derivatives may also be used (primarily for the purpose of managing risk).

Investment category: Australian Equities

Suggested Investment Timeframe: 5+years

Relative Risk Rating: High

Investment Style: Core

Asset Allocation	Actual (%)	Range (%)
Total Equities	99	90-100
Total Cash	1	0-10

Holdings

Industry Exposure	%
Energy	7.05
Materials	23.72
Industrials	3.71
Consumer Discretionary	6.65
Consumer Staples	7.31
Healthcare	3.68
Financials	38.57
IT	4.39
Telecommunication	3.97
Utilities	0.00
Real Estate	0.00
Cash	0.97

Top Ten Securities	%
Westpac Bank	9.62
Commonwealth Bank of Australia	8.78
National Australia Bank	8.43
BHP Billiton	8.10
BlueScope Steel	5.06
QBE Insurance	4.42
Aristocrat Leisure	4.00
Telstra Corporation	3.78
Santos	3.75
Treasury Wine Estates	3.44

Market Commentary

The Australian equity market (S&P/ASX 300 Accumulation Index) returned 4.7% in the first quarter of 2017. The domestic market underperformed most international equity markets (MSCI World: +6.5%, MSCI Emerging: +11.5%, MSCI Frontier: +9.1%; S&P 500: +6.1%, EURO STOXX: +7.2%, and FTSE 100: +3.7%), despite strong earnings upgrades to the Resources sector and small earnings upgrades to the Banking sector.

Domestically, mid-cap stocks (S&P/ASX MidCap 50 Accumulation Index: +5.3%) and large-cap stocks (S&P/ASX 20 Accumulation Index: +5.0%) outperformed, while small-cap stocks (S&P/ASX Small Ordinaries Accumulation Index: +1.5%) underperformed.

Commodity prices remained volatile during the period. Precious metals closed higher (Gold: +8.9%; Silver: +14.7%; Platinum: +5.2%). Energy generally closed lower (WTI Oil: -5.8%; Brent Oil: -4.9%; Natural Gas: -15.8%; Premium Metallurgical Coal: -32.6%; Thermal Coal: -14.1%; Seaborne Metallurgical Coal: +42.5%). Base, bulk and industrial commodities were mixed (Iron Ore: +1.9%; Steel: -8.2%; Aluminium: +14.6%; Copper: +5.3%; Lead: +16.6%; Manganese: -16.0%; Nickel: unchanged; Tin: -4.6%; Zinc: +7.5%).

Within the Australian equity market, some defensive sectors such as Health Care (+14.7%), Utilities (+10.7%) and Consumer Staples (+10.7%) outperformed. The underperforming sectors were Retailing (-4.7%), Telecommunication Services (-4.5%), Real Estate (+0.5%) and Metals & Mining (+2.0%).

Health Care heavyweights, CSL (+25.7%) and Cochlear (+11.4%), continued to re-rate during the period. AGL Energy (+21.5%) benefitted from concerns regarding the shortage of electricity and gas supply. Woolworths (+11.4%) progressed with the improvement in its supermarket business against its competitors, but potential weakness in Wesfarmers' (+9.6%) Coles business was somewhat offset by the significant ongoing recovery in its coal business. Vocus Group (+11.6%) reported an improved half-year result, but the sector underperformed on concerns regarding higher capital expenditures from the release of new mobile phone spectrum auctions in April 2017. Harvey Norman (-11.9%) underperformed following news of an investigation from the corporate regulator regarding the company's disclosure policy. Investors remained cautious on the sector due to the potential entry of Amazon in Australia, which is expected to increase competitive pressures. This also affected Real Estate Investment Trusts (REITs) exposed to the Retailing sector, namely Vicinity Centres (-5.4%), Scentre Group (-5.3%), Westfield Group (-3.6%) and Stockland (+1.3%). The volatility in commodity prices hurt Western Areas (-24.8%), Independence Group (-16.9%), BHP Billiton (-1.9%) and Sims Metal Management (-1.4%).

A highlight of the reporting season was the generally strong balance sheet of the Australian corporates, evidenced by the increased number of buybacks announced. It was also a busy month for corporate activity which kept the short sellers on their feet. ANZ Bank (+4.6%) announced: 1) the sale of its 20% stake in Shanghai Rural Commercial Bank for $1.84b; 2) the sale of its equities brokerage business, E-Trade, to CMC Markets; and 3) intentions to sell its wealth management business. Ariadne Capital acquired a meaningful portion (5%) of Ardent Leisure (-21.8%) with the intention to potentially restructure the business. Downer (+2.5%) acquired 19.9% of Spotless (+11.6%) at a 59% premium to the Spotless' pre-announcement price, with the intention to acquire the remaining balance in the company through a takeover bid at that price. Funding was executed via a 2-for-5 rights issue at a 20% discount. Prior to this, Downer also announced the acquisition of Hawkins, a New Zealand-based construction and infrastructure company. The largest shareholder for Evolution Mining (-0.1%), La Mancha Group, sold 5.2% of the company at a 6% discount to the pre-transaction price in a funding transaction with Citi. Fairfax Media (+17.7%) announced its intention to spin-off 60-70% of its online real estate business Domain. Premier Investments (-0.8%) acquired a 10.77% stake in Myer (-9.5%) in a share market raid. Rio Tinto (+3.5%)

confirmed the sale of its coal assets to Yancoal (-19.4%) for $2.5b. Seven Group (+39.2%) announced that it acquired an additional 1.93% of Estia Health (+18.9%). Dubai-based Dar Group acquired more than 13% of WorleyParsons (+13.3%), and announced its intention to acquire a strategic 19.99% of the company. Vocus Group sold its 16% stake in Macquarie Telecom (+11.1%) at a 6% discount to the pre-announcement price.

Investment Option Commentary

At a sectoral level, the Fund benefited from the overweight positions in the Financial Services and Materials sectors. The underweight positions in the Industrials and Real Estate sectors also added value. Conversely, the overweight positions in the Energy, Consumer Discretionary, Information Technology and Telecommunication Services sectors detracted from relative performance. The underweight positions in the Consumer Staples, Health Care and Utilities sectors also detracted value.

At a stock level, the overweight positions in BlueScope Steel, Aristocrat Leisure, Treasury Wine Estates, Fairfax Media, WorleyParsons, Computershare, National Australia Bank and Boral contributed to relative performance. The underweight positions in Scentre Group and Westfield also added value. Conversely, the overweight positions in Santos, Brambles, Independence Group, Ardent Leisure, BHP Billiton, Clydesdale Bank and Origin Energy detracted from relative performance. The underweight positions in CSL, AGL Energy and Wesfarmers also detracted value.

Outlook

Since the election of Donald Trump, global equity markets have rallied with support from soft data (which is based on expectations, surveys and sentiment) but hard data (ie: actual measures of economic activity) has lagged considerably (please refer to chart below from BCA Research). Global equity markets may become increasingly cautious of this divergence as significant earnings upgrades (via execution of policy and subsequent economic growth) are now required to sustain valuations at current levels.

For the year-to-date, average commodity prices (Iron Ore: $86/t; Premium Metallurgical Coal: $167/t) have remained above consensus forecasts for CY2017. This is primarily due to Chinese supply-side reforms and expectations of improving global growth. Investors in Australian equities are potentially discounting the earnings of the Resources sector following the resilience in spot commodity prices. Furthermore, as most Resources companies are focussed on deleveraging, reducing production costs and having a more disciplined approach to capital expenditures, further upgrades to earnings and cash flow are likely for FY2017. The Banking sector is amid a small earnings upgrade cycle following out-of-cycle increases in mortgage interest rates. Furthermore, the renewed focus on core banking operations as evidenced by the divestment of non-core assets is also expected to improve profitability and financial strength.

The Australian market EPS growth rates are now +16.0% for FY2017 with +5.6% forecast for FY2018. Despite recent earnings upgrades, valuations are now at 16.3x and 15.5x PE forecasts for 2017 and 2018 respectively. The dividend yield remains supportive with 4.3% forecast for FY2017. IPO activity is increasing and corporate activity has started to emerge as corporates look to offset modest growth momentum with earnings accretive deals.