

Future Directions Emerging Markets

Quarterly Investment Option Update

31 March 2017

Aim and Strategy

To provide high returns over the long term, whilst accepting a higher level of volatility, through a diversified portfolio of international shares, focussing on emerging markets. The objective is to provide a total return, after costs and before tax, higher than the return from the MSCI Emerging Markets Index on a rolling 3 to 5 year basis.

Investment Option Performance

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

Availability

Product name	APIR
<u>AMP Flexible Super – Retirement</u>	AMP1350AU
<u>AMP Flexible Super – Super</u>	AMP1479AU
<u>CustomSuper</u>	AMP1103AU
<u>Flexible Lifetime – Allocated Pension</u>	AMP1105AU
<u>Flexible Lifetime – Term Pension</u>	AMP1109AU
<u>Flexible Lifetime – Super</u>	AMP1103AU
<u>Flexible Lifetime Investment</u>	AMP1117AU
<u>Flexible Lifetime Investment (Series 2)</u>	AMP1414AU
<u>SignatureSuper</u>	AMP1114AU
<u>SignatureSuper – Allocated Pension</u>	AMP1105AU

Investment Option Overview

Investment category Specialist Equities

Suggested investment timeframe 7+ years

Relative risk rating High

Investment style Multi-Manager

Asset Allocation	Benchmark	Range (%)
International shares	100	90-100
Cash	0	0-10

Top Ten International Shares Exposure	%
Samsung Electronics Co Ltd	4.76
TSMC	4.63
Tencent Holdings Ltd	3.01
Alibaba Group Holding Ltd	2.32
China Construction Bank Corp	1.61
Telekomunikasi Indonesia Perse	1.40
KB Financial Group Inc	1.33
Bank of China Ltd	1.28
Hon Hai Precision Industry Co	1.25
SINOPEC CORP	1.18

Industry Exposure	%
Information Technology	25.90
Financials	23.55
Materials	9.06
Energy	8.70
Consumer Discretionary	8.11
Consumer Staples	4.85
Telecommunication Services	4.60
Industrials	3.81
Utilities	3.25
Health Care	3.06
Real Estate	2.87
Cash	2.23
Others	0.00

Regional Exposure	%
Asia	67.37
Latin America	9.99
Europe	9.07
Middle East & Africa	7.32
Others	4.01
Cash	2.23

Portfolio Summary

- > Global share markets performed well during the quarter, with emerging markets outperforming their developed market counterparts.
- > The Fund posted a positive return and outperformed the benchmark, with all three underlying managers outperforming.
- > Emerging equity markets are well positioned to benefit from global growth in 2017, and remain very attractive as part of a diversified portfolio.

Investment Option Commentary

The Fund posted a positive absolute return of +6.70% this quarter, comfortable outperforming the benchmark. All three underlying managers beat the benchmark, with Lazard the best performer.

The single largest contributor to relative performance for the quarter was an overweight allocation to Chinese car manufacturer Geely, which announced a doubling of net profit for FY 2016. Geely bought Volvo cars in 2010, and has been using Volvo's engineering and technological expertise to improve quality, and increase market share in China. Other contributors to positive performance were an overweight allocation to Indian broadcaster Sun TV Network, which reported an 11% rise in earnings, and an underweight allocation to Russian gas producer Gazprom, which fell 15% after reporting falling revenue and rising operating expenses.

An overweight exposure to Russian energy company Lukoil was the largest negative contributor this quarter, after the company reported a 29% fall in full year profits. Another major detractor from relative performance included an underweight to Chinese retailer Alibaba Group, whose stock gained 17% over the quarter, and is approaching its all-time high stock price, which it achieved shortly after floating in 2014.

From a sectoral perspective, asset allocation had a largely neutral effect, with Fund outperformance this quarter largely attributable to stock picking. Stock selection within consumer discretionary, information technology and energy was beneficial this quarter, while stock selection in real estate and financials sectors was weak.

Market commentary

Global shares again rose strongly in the March quarter, with the MSCI World ex Australia Net Index closing up 5.4% in local currency terms, all while exhibiting and unusually low level of volatility. Uncertainty stemming from the Trump election victory continued to dissipate through the early to mid-March quarter, replaced with continued investor optimism over the President's growth-stimulating policies such as large-scale infrastructure spending, reduced corporate tax and deregulation. This is being reflected by many major equity markets being at or near record-highs. Emerging markets did even better and closed up by 7.8% (as measured by the MSCI Emerging Markets Accumulation Index in local currency terms). In Australian dollar terms, this translated to a rise of 5.78%, due to a rising AUD over the quarter.

Outlook

Although the new US administration has been broadly positive for global stocks, there remains considerable uncertainty regarding future actions particularly in the implementation of political intentions. However, following any short-term weakness, we still expect shares to trend higher over the next 12 months, helped by the synchronised pickup in global economic activity data, the growing inflationary impulse, and the ultimate feed through to nominal growth and nominal corporate earnings. There are expectations of improving emerging market GDP growth, with markets such as Russia and Brazil recovering from a low base, in line with commodity price recovery. Risks of a US-China trade war seem to have diminished, after President Trump's positive meeting with Chinese President Xi Jinping. Chinese GDP growth is expected to be around 6.5%.

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