Specialist 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 300 Accumulation Index on a rolling 3 year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange. Managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the Australian Securities Exchange. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars.
The portfolio may use derivatives such as options, futures or swaps to protect against risks or enhance returns. The portfolio may also short sell securities.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0655AU
AMP Flexible Super - Retirement account	AMP1346AU
AMP Flexible Super - Super account	AMP1475AU
AMP Growth Bond	AMP1193AU
CUSTOM SUPER	AMP0655AU
Flexible Lifetime - Allocated Pension	AMP0600AU
Flexible Lifetime - Term Pension	AMP0921AU
METCASH SUPERANNUATION PLAN	AMP0655AU
MultiFund Flexible Income Plan	AMP0734AU
Signature Super	AMP0797AU
Signature Super Allocated Pension	AMP1150AU

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

Top Ten Securities Exposure	%
Commonwealth Bank of Australia	8.43
Australia & New Zealand Banking Group Ltd	6.92
Westpac Banking Corp	6.72
BHP Billiton Ltd	6.01
National Australia Bank Ltd	5.15
Rio Tinto Ltd	3.94
Suncorp Group Ltd	3.12
Macquarie Group Ltd	3.02
Wesfarmers Ltd	2.99
CSL Ltd	2.32

Investment Option Overview

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

Industry Exposure	%
Financials	38.21
Materials	18.50
Consumer Staples	6.66
Industrials	6.26
Consumer Discretionary	5.69
Energy	5.00
Health Care	4.93
Real Estate	4.58
Cash	3.45
Telecommunication Services	2.74
Utilities	2.41
Information Technology	1.51
Others	0.04

Industry Exposure	%
Other	0.00

Portfolio Summary

> Australia's S&P/ASX 200 Accumulation Index rose strongly over the quarter, and finished up by 4.5%.
> The Fund posted a positive return, but underperformed its benchmark during the quarter.
> Expectations for non-mining company profits are stronger than a year ago.

Investment Option Commentary

The Fund posted a positive return in the first quarter of 2017, but underperformed its benchmark. Only one underlying manager, Alphinity, outperformed its benchmark. Perennial performed in line, and Ironbark, Schroders and Fidelity underperformed their respective benchmarks.

Asset allocation had a slightly negative effect overall this quarter. The underweight allocation to the strong performing health care sector detracted from performance, as did the overweight allocation to the underperforming materials sector. These negatives were moderated by positive contributions from underweight allocations to the underperforming real estate and telecommunications services sectors.

Stock selection was the main reason for the overall underperformance this quarter, particularly in the materials, industrials and financials sectors. The biggest detractor from performance was an underweight position in CSL, which gained 26% over the quarter, after announcing higher earnings growth and promising prospects from its international vaccine business. An overweight position in Brambles was also a detractor from performance, as the company fell 23% over the quarter, after announcing a 44% fall in half year profits due to non-cash write downs. Other adverse positions included overweight holdings in Domino's Pizza, which fell 10%, and James Hardie, which fell 6%. Underweight holdings in Transurban (+13%) and Bluescope Steel (+30%) were also detrimental to overall performance.

The best performing underlying manager in the March quarter was Alphinity, who made its best returns from overweight positions in Aristocrat Leisure (+16%) and Treasury Wine Estates (16%), and from underweight positions in Telstra (-6%) and Scentre (-5%). Going forward, Alphinity has increased its exposure to the steel industry, and reduced exposure to yield-sensitive sectors such as real estate and infrastructure.

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 focusing 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 benefiting 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 focusing 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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