

# Specialist Australian Small Companies

Quarterly Investment Option Update

31 March 2017

## Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, higher than the return from the S&P/ASX Small Ordinaries Accumulation Index on a rolling 3 year basis. The portfolio invests in small companies listed on the Australian Securities Exchange (ASX).

For this portfolio small companies are considered to be those outside the top 100 listed companies (by market value). Up to 20% of the portfolio may be invested in unlisted companies that the investment manager believes are likely to be listed in the next 12 months, or in companies between the top 50 and 100 listed on the ASX.

## Investment Option Performance

To view the latest investment performances please visit [www.amp.com.au](http://www.amp.com.au)

### Availability

| Product name  | APIR      |
|---|-----------|
| <a href="#">AMP Flexible Lifetime Super</a>             | AMP0863AU |
| <a href="#">AMP Flexible Super - Retirement account</a> | AMP1347AU |
| <a href="#">AMP Flexible Super - Super account</a>      | AMP1476AU |
| <a href="#">CUSTOM SUPER</a>                            | AMP0863AU |
| <a href="#">Flexible Lifetime - Allocated Pension</a>   | AMP0879AU |
| <a href="#">Flexible Lifetime - Term Pension</a>        | AMP0933AU |
| <a href="#">Flexible Lifetime Investment</a>            | AMP1005AU |
| <a href="#">Flexible Lifetime Investment (Series 2)</a> | AMP1141AU |
| <a href="#">METCASH SUPERANNUATION PLAN</a>             | AMP0863AU |
| <a href="#">Signature Super</a>                         | AMP0951AU |
| <a href="#">Signature Super Allocated Pension</a>       | AMP1147AU |

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

| Top Ten Securities Exposure | %    |
|-----------------------------|------|
| Gateway Lifestyle           | 3.67 |
| HFA Holdings Ltd            | 2.96 |
| Super Retail Group Ltd      | 2.54 |
| EML Payments Ltd            | 2.41 |
| SpeedCast International Ltd | 1.87 |
| Collins Foods Ltd           | 1.83 |
| Imdex Ltd                   | 1.76 |
| Bapcor Ltd                  | 1.72 |
| WorleyParsons Ltd           | 1.59 |
| Pacific Energy Ltd          | 1.43 |

## Investment Option Overview

|                                       |                                  |
|---------------------------------------|----------------------------------|
| <b>Investment category</b>            | Small Capitalisation<br>Equities |
| <b>Suggested investment timeframe</b> | 5 - 7 years                      |
| <b>Relative risk rating</b>           | High                             |
| <b>Investment style</b>               | Multi-Manager                    |

| Industry Exposure          | %     |
|----------------------------|-------|
| Consumer Discretionary     | 22.77 |
| Materials                  | 18.83 |
| Industrials                | 9.57  |
| Financials                 | 9.35  |
| Cash                       | 8.39  |
| Real Estate                | 8.15  |
| Health Care                | 7.44  |
| Information Technology     | 6.68  |
| Energy                     | 4.70  |
| Telecommunication Services | 1.87  |
| Utilities                  | 1.43  |
| Consumer Staples           | 1.12  |

| Industry Exposure | %     |
|-------------------|-------|
| Others            | -0.29 |

## Portfolio Summary

- > Australian small-caps had a positive quarter, but underperformed the broader market.
- > The Fund produced a negative return, and underperformed the benchmark during the quarter.
- > Non-mining company profit expectations are stronger this year than in 2016.

## Investment Option Commentary

The Fund produced a negative return during the March quarter, and underperformed the benchmark. All three underlying managers posted negative returns and underperformed the benchmark.

Sector positioning was negative, with an underweight allocation to the strong-performing consumer staples sector proving detrimental. Broadly speaking, stock selection was also a performance detractor in the March quarter, with picks in the consumer discretionary sector giving up some of the outperformance of the previous period.

The leading contributor to performance over the quarter was web solutions provider Melbourne IT (+21%), a stock pick by Perennial Value Management. The company has been able to demonstrate growth in their domain registration business, which has beaten market expectations. Another strong contributor was New Zealand publishing and media company NZME (+ 55%) which delivered a better than expected annual profit result.

The most significant detractor from performance over the quarter was the overweight position in oil explorer Sundance Energy (-45%), which announced a fall in oil production rate in Q4 2016. Other detractors included an overweight holding in rental equipment provider Thorn Group (-30%) and an underweight holding in health insurer NIB Holdings (+27%).

## 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. Small-cap stocks posted a positive return of 1.5% (as measured by the S&P ASX Small Ordinaries Accumulation index), but once again underperformed the broader equity market. Within the small-cap space, consumer staples and utilities were the best performing sectors in the March quarter, with information technology the main laggard.

## 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.

## Contact Us

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