Specialist Geared Australian Share

Quarterly Investment Option Update

31 March 2017

Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange.
The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is 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 3 year basis.

Investment Option Performance

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

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0850AU
Flexible Lifetime Investment (Series 2)	AMP1416AU
AMP Flexible Super – Super	AMP1481AU
Signature Super	AMP0823AU
Signature Super Allocated Pension	AMP1154AU
Flexible Lifetime – Term Pension	AMP0924AU
Custom Super	AMP0820AU
Flexible Lifetime – Allocated Pension	AMP0819AU
AMP Flexible Lifetime Super	AMP1352AU

Top Ten Securities Exposure	%
Commonwealth Bank of Australia	8.87
Westpac Banking Corp	8.58
Australia & New Zealand Banking Group Ltd	6.23
National Australia Bank Ltd	5.39
BHP Billiton Ltd	5.22
Telstra Corp Ltd	3.09
Wesfarmers Ltd	3.08
Macquarie Group Ltd	2.85
CSL Ltd	2.32
Woodside Petroleum Ltd	2.22

Investment Option Overview

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

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

Industry Exposure	%
Financials	40.74
Materials	16.44
Real Estate	7.04
Consumer Staples	6.09
Industrials	5.76
Health Care	4.87
Energy	4.04
Telecommunication Services	3.58
Consumer Discretionary	3.57
Utilities	3.24
Cash	3.20
Information Technology	1.43

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 and comfortably outperformed 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 absolute return and comfortably outperformed its benchmark during the quarter. Underlying manager performance was mixed (on an ungeared basis). All managers posted positive returns on an absolute basis. Vinva Investment Management outperformed the benchmark, AMP Capital Enhanced Index Share Fund performed in line, and the AMP Capital Fundamentals underperformed the benchmark. Gearing had a positive impact in the March quarter, leading to overall outperformance relative to the benchmark, as positive returns in absolute terms were magnified.

Sector allocation was a slight detractor over the period, with an underweight to the strong performing health care industry having an impact on performance, largely to the stellar returns by CSL over the quarter. The underweight allocation to consumer staples was also a detractor, but this was moderated by positive contributions from underweight allocations to the underperforming real estate and telecommunications services sectors. The allocation to cash, held for liquidity purposes, also weighed on performance as would be expected in a strongly rising market.

The effect of stock selection was an overall positive contributor, with good stock selection in the real estate, industrials and utilities sectors adding value. At the individual stock level, the biggest individual contributor was an underweight to Brambles, as the company fell 23% over the quarter, after announcing a 44% fall in half year profits, due to non-cash write downs. Other favourable positions were an overweight holding of AGL (+21%) and underweights in Scentre (-5%) and Telstra (-6%). The main detractor was an underweight exposure to CSL, which gained 26% over the quarter, after announcing higher earnings growth and promising prospects from its international vaccine business. Other detractors were an overweight holding of Tabcorp (+2%) and an underweight position in Transurban (+13%).

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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What you need to know