

Yarra Australian Equities

Quarterly Investment Option Update

31-March-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1341AU
AMP Flexible Super – Choice (Super)	AMP1470AU
CustomSuper	AMP0766AU
Flexible Lifetime – Allocated Pension	AMP0625AU
Flexible Lifetime – Super	AMP0766AU
Flexible Lifetime – Term Pension	AMP0918AU
SignatureSuper	AMP0791AU
SignatureSuper Allocated Pension	AMP1145AU
Flexible Lifetime Investment	AMP0833AU
Flexible Lifetime Investment (Series 2)	AMP1406AU
MultiFund Flexible Income Plan	AMP0763AU

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 achieve medium-to-long term capital growth through exposure to companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling three-year periods.

Investment category: Australian shares – core

Suggested Investment Timeframe: 5 – 7 years

Standard Risk Measure: 6/ High

Asset Allocation	Benchmark (%)	Range (%)	Actual (%)
Australian shares	100	80-100	98.48
Cash	0	0-20	1.52

Holdings

Industry Exposure	%
Consumer Discretionary	5.65
Consumer Staples	1.61
Energy	4.39
Financials	40.48
Health Care	9.19
Industrials	12.5
Information Technology	6.5
Materials	11.11
Real Estate	0
Telecommunication Services	3.8
Utilities	1.33
Futures	1.91
Cash	1.52

Holdings as of 31 Mar 2017

Regional Exposure	%
Australia	100

Top Ten Securities	%
Commonwealth Bank of Australia	13.00
Westpac Banking Corporation	11.11
ANZ Bank	9.15
Macquarie Group Limited	4.66
Origin Energy Limited	4.39
Seek Limited	3.72
ResMed	3.51
Computershare Limited	3.40
Crown Resorts Limited	3.20
Transurban Group Ltd.	3.09

Holdings as of 31 Mar 2017

Market Commentary

A better-than-expected earnings season and a supportive environment globally buoyed the Australian equities market in the first quarter of 2017, even as resources lost momentum.

The S&P/ASX 200 Accumulation Index rose 4.8% in the quarter, taking its total return to 20.5% for the 12 months to 31 March 2017. However, the ASX 200 lagged overseas indices, with the MSCI World Index returning 5.6% in AUD currency terms.

Increased unease over whether Donald Trump can execute on his pro-growth policies didn't impact US equities in the quarter, with the Dow Jones closing at record highs for 12 consecutive sessions and the VIX "fear" Index remaining at

historically low levels. But there were signs of concern in other asset classes: the gold price climbed 8.6% to \$US1,245 an ounce and US bond yields fell.

In Australia more companies beat expectations in reporting season than those that missed. However, the main driver of the market over the past 12 months – Diversified Metals & Mining – declined 1.1% despite strong results and the iron ore price rising 8.9%, with investors instead focused on uncertain outlook commentary from management and the sustainability of the iron ore price at current levels.

Telecommunication Services (-4.5%), however, was the worst performer, due to a worse-than-expected first half result from Telstra (TLS, -5.6%).

In contrast, the banking sector was the biggest contributor to the ASX200's return, rising 6.6%. Bad debts were flat to down, productivity gains persisted, margins stabilised and confidence grew about capital adequacy.

Elsewhere, Transportation Infrastructure rebounded (+11.9%) as pressure abated from higher bond yields, with the Australian 10-year government bond yield falling by 6 bps to 2.7%. Large caps Sydney Airport (SYD, +13.0%) and Transurban (TCL, +13.1%) were the top performers.

Investment Option Commentary

The portfolio outperformed its benchmark in the March quarter as key underweight exposures dominated returns.

The underweights to Telstra (TLS, -5.6%) and Brambles (BXB, -23.4%) contributed most to returns. Both industry leaders delivered worse-than-expected interim results.

Within Diversified Metals & Mining, the portfolio's underweight to BHP Billiton (BHP, -1.9%) was also a source of outperformance.

In contrast, underweights to CSL (CSL, +25.7%) and National Australia Bank (NAB +8.7%) detracted from performance amid an improving operating environment for both companies.

Overweight positioning also had a significant impact on performance. Computershare (CPU, +14.3%) and Crown Resorts (CWN, +12.0%) were significant contributors, while Henderson Group (HGG, -5.0%) was the second largest detractor.

Outlook

Consensus earnings expectations of around 19% growth in FY17 reflect Resources rebounding, tempered by mid-single digit Financials and Industrials growth.

We retain significant longer term concerns about Resources on demand and supply fundamentals of the underlying commodities. Financials and Industrials growth expectations are realistic, in our view.

Australian equities are priced slightly above long-term averages based on forward earnings estimates, but their valuations are attractive relative to alternatives. The S&P/ASX 200 yields around 4.4% versus 2.6% from the Australian government 10-year bond.

We expect economic growth in Australia to remain subdued. Meanwhile, excitement about political change overseas is likely to fade as the difficulty of implementing solutions becomes apparent.

At a stock and sector level, disruption is likely to accelerate (Retail/Amazon, Telcos and Banking), with many companies and industry structures at risk.

We see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are overweight in the Information Technology, Banking and Industrials sectors, but are underweight Real Estate, Metals & Mining and Consumer Staples.

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Yarra Capital Management

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