AMP Alternative Index*

Quarterly Investment Option Update

31-December-2017

**This option is named "Super Easy Alternative" in the AMP Flexible Super – Super and AMP Flexible Super – Retirement products.*

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1846AU
AMP Flexible Super – Choice (Super)	AMP1842AU
CustomSuper	AMP1826AU
Flexible Lifetime – Allocated Pension	AMP1830AU
Flexible Lifetime – Super	AMP1826AU
SignatureSuper	AMP1834AU
SignatureSuper – Allocated Pension	AMP1838AU

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: This investment option provides investment exposure to AFS Alternatives Fund I (the "Fund"), which is managed by K2/D&S Management Co., L.L.C. (together with its affiliate, K2 Advisors, L.L.C., "K2" or "K2 Advisors"). The Fund seeks to provide returns similar to the K2 Rotational Hedge Fund Index (the "Index") by investing in a variety of instruments linked to indices in multiple asset classes. Quantitative models are used to analyse the recent performance of the Index and determine the diversified classes such as: US and International Equities, US and International Treasuries, Currencies and Commodities. The Fund does not make investments in underlying hedge funds. The Index is based on a subset of managers approved for investment by K2 Advisors. Two portfolios are constructed monthly, the Risk On Portfolio and the Risk Off Portfolio. Risk On is comprised of managers from the Equity Hedge, Event Driven, and Relative Value Strategies. Risk Off is comprised of Macro managers. The Risk Off Portfolio seeks to limit losses during periods of muted market expectations. The Index switches between the Risk On and Risk Off portfolios in K2's discretion, based on proprietary signals.

Both the Risk On and Risk Off Portfolios are modelled each month using updated data from our the managers and the underlying investments. On a weekly basis, the market signals are updated to aid K2 in determining which portfolio to implement. The available investment instruments may be reviewed by K2 from time to time to assess whether the addition or removal of an instrument would be beneficial.

Investment category: Alternatives

Suggested Investment Timeframe: 3-4 years

Relative Risk Rating: Medium

Investment Style: Multi-asset class portfolio providing hedge fund-like returns.

Underlying Investment	Net Exposure
US Large Cap Equities	5%
US Small Cap Equities	19%
European Equities	-2%
Emerging Market Equities	22%
US 10 Year Treasuries	9%
US 2 Year Treasuries	-38%
US Dollar	5%

Market Commentary

Global equity markets advanced in US-dollar terms during the fourth quarter of 2017. Investors mainly focused on continued indications of positive economic growth from several regions and expectations surrounding tax reform in the United States. The International Monetary Fund in October upgraded its forecast for global growth in 2017 and 2018. However, it cautioned that recovery from the 2007–2009 global financial crisis remains incomplete, and that latent risks could return as central banks pivot away from extensive stimulus. Emerging stock markets, as measured by MSCI indexes, collectively topped their developed-market peers during the fourth quarter.

In emerging markets, China's third-quarter annual gross domestic product (GDP) growth was in line with consensus expectations. The World Bank lifted its forecast for China's 2017 GDP, while expecting somewhat decelerated growth in 2018 and 2019 due to domestic policy tightening. South Korea's third-quarter GDP grew year-on-year, and the country's central bank raised interest rates for the first time in six years during November. Brazil's third-quarter GDP also rose year-on-year, and the country's central bank cut its benchmark interest rate in October and December, bringing it to an all-time low. Mexico's third-quarter annualized GDP growth was the weakest since 2013.

In the United States, a major tax bill was signed into law in December that featured a significant reduction in the corporate tax rate. The US Federal Reserve (Fed) raised short-term interest rates during the same month, the latest in a series of well-flagged moves. The Fed also maintained its forecast of three rate increases in 2018. Meanwhile, third-quarter US GDP came in ahead of consensus estimates. In other developed markets, the European Central Bank raised its forecast for eurozone GDP growth in 2017 and through 2020, though it expects growth to moderate after 2017. In early November, the Bank of England hiked its benchmark interest rate for the first time in 10 years. Japan's preliminary third-quarter GDP grew at a stronger-than-expected pace on the previous quarter and on an annualized basis.

Investment Option Commentary

The investment option rose in the fourth quarter of 2017, posting positive performance in two out of the three months. The investment option began the quarter Risk On and maintained its Risk On profile throughout the quarter. As a result of Risk On positioning, the investment option benefitted from a further rally in risk assets. The strongest contributor for the quarter was long exposure to Emerging Market Equity, with smaller contributions coming from long positions in US Small Cap Equity and the US Dollar. Long exposure to US 2-year Treasuries was the largest detractor for the quarter as investors appeared to anticipate further rate hikes from the US Federal Reserve. At its December Federal Open Market Committee meeting, members of the US Federal Reserve performed its third interest rate hike for 2017. In aggregate, the investment option's positioning for a steeper US yield curve detracted from performance in the fourth quarter as its long 2-year and short 10-year exposures were a net drag on performance in two out of three months. The fund's average short exposure to US Large Cap Equity was the worst performing component as it held minimal short positions in October and November. Long exposure to European Equity was also a slight negative for the quarter.

The fund began the first quarter positioned Risk On as the MacroPak Equity Barometer continues to improve, generating favourable readings for risk assets. The investment option has generally held consistent exposure across its asset classes from late December and into early January 2018. The investment option remains long US Large Cap Equity, US Small Cap Equity, Emerging Market Equity and the US Dollar. In treasuries, the investment option continues to position for a steeper yield curve. The sole directional change during the early January rebalancing was a switch from long to short European Equity. In aggregate, the fund maintained its net equity exposure while reducing total gross exposure in comparison to the fourth quarter of 2017.

Outlook

Europe is poised for higher economic growth with strong consumer confidence, improving inflation, and decreasing unemployment levels. While these factors should trickle into earnings, markets are currently pricing in low growth.

European equity valuations appear more favorable on a historical relative basis. Europe to US Price to Book ratio remains at record lows. Recent developments such as Brexit may lead to further bifurcation (i.e. domestic-oriented companies vs. companies with international sales) within Europe, creating clear groups of winners and losers. Long/short investors within the region may be able to take advantage of this dispersion. Uneven growth across the region will result in increased dispersion of stocks, sectors, or countries which should help generate higher alpha. Similar to the US, rising interest rates driven by the ECB's unwinding of fiscal stimulus may have companies experience similar tailwinds as US companies.

Diverging central bank policies, changing central bank leadership, potential for geopolitical instability and other risk factors may all serve to increase market volatility, and provide discretionary macro managers with an improved opportunity set for trading across fixed income and currency markets.

Duration risk remains in many fixed income investors' portfolios. The high yield market has never been more interest rate sensitive.

While rates have remained lower for longer than the market originally anticipated, duration risk is still prevalent in many fixed income investors' portfolios.

What you need to know