

AMP Australian Share

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

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 12 month basis.

The portfolio uses a number of diverse styles including Enhanced Index, Core, Quant, Value and Sustainable Alpha styles to invest. The Enhanced Index approach takes on slightly higher levels of risk, relative to benchmark, than an indexed investment. The Core style is based on the belief that a key driver of share value is a company's ability to grow earnings. The Quant style uses a number of quantitative techniques to target pricing anomalies across a large number of shares using a highly disciplined investment process. The Value approach aims to identify companies that are currently undervalued in the belief that they will offer better returns. The Sustainable Alpha approach addresses environmental, social and governance issues as part of the financial assessment of companies.

Investment style: Multi-style

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0163AU
AMP Flexible Super - Retirement account	AMP1320AU
AMP Flexible Super - Super account	AMP1450AU
CUSTOM SUPER	AMP0163AU
Flexible Lifetime - Allocated Pension	AMP0591AU
Flexible Lifetime - Term Pension	AMP0891AU
Flexible Lifetime Investment	AMP0827AU
Flexible Lifetime Investment (Series 2)	AMP1389AU
Investment Linked Deferred Annuity	AMP0747AU
Investment Linked Regular Premium	AMP0246AU
METCASH SUPERANNUATION PLAN	AMP0163AU
MultiFund Flexible Income Plan	AMP0476AU
Signature Super	AMP0739AU
Signature Super Allocated Pension	AMP1129AU

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

Investment Option Overview

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

Top Ten Australian Securities	%
COMMONWEALTH BANK AUST	8.19
Westpac Banking Corp	6.14
BHP Billiton Ltd	5.64
Australia & New Zealand Banking Group Ltd	4.84
National Australia Bank Ltd	4.55
CSL Ltd	3.85
Wesfarmers Ltd	3.04
Telstra Corp Ltd	2.45
Woolworths Group Ltd	2.12
Macquarie Group Ltd	1.94

Industry Exposure	%
Financials	34.02
Materials	18.21
Industrials	7.71
Real Estate	7.51
Consumer Staples	7.51
Health Care	6.90
Energy	5.04
Consumer Discretionary	4.72

Industry Exposure	%
Telecommunication Services	2.79
Information Technology	2.17
Utilities	1.91
Cash	1.52

Portfolio Summary

- > The Option posted a positive return for the quarter, and outperformed the benchmark (before fees).
- > The Option's relative outperformance was primarily attributable to the positive impact of stock selection.
- > Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting rather than margin expansion

Investment Option Commentary

The Option posted a positive return for the December quarter, and outperformed the benchmark (before fees). The Option's relative outperformance was primarily attributable to the positive impact of stock selection. Whilst sector allocation also contributed overall to returns, the Option's cash position detracted from returns as markets rose strongly during the period.

In terms of sector allocation, the main contributors to relative performance were overweight allocations to the information technology and energy sectors, whilst the cash position and being underweight to the industrials sector were the main detractors.

In terms of stock selection, the main contributors to relative performance were overweight exposures to Origin Energy (+25.9%), BlueScope Steel (+40.1%) and Boral (+15.1%). Overweight allocations to Fletcher Building (-6.50%), Orica (-7.0%) and ALS (-9.6%) were the main detractors.

Market commentary

Australian shares had a stellar December quarter, with the S&P/ASX 200 Accumulation Index rising by 7.6%. In a period when all sectors posted positive returns, the best performers were energy, information technology and materials, whilst utilities, financials and industrials underperformed (despite still doing well in absolute terms). The quarter saw investors become less optimistic on Australian banks, on the news of an upcoming Royal Commission into alleged misconduct in the financial services industry. Australia's financial companies are already under a significant degree of scrutiny by regulators, and markets are concerned about what the upcoming investigations may unearth, particularly in regard to lending practices. A standout positive performer for the quarter was gas/oil explorer and producer, Origin Energy, as investors continued to gain optimism from rising consumer energy prices, as well as management's debt-reduction strategy. Looking at the market as a whole, some analysts have continued to question whether Australian corporate earnings' multiples are too optimistic, given some of the challenging economic conditions in Australia such as low growth, high debt levels, weak consumer spending, lack of wages growth and rising living costs. However, population growth and a pickup in LNG exports are likely to provide some positive support.

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 remains highly susceptible to any pause in activity from China. Defensive companies that historically have offered high and stable dividends are likely to continue to underperform in a rising US interest rate environment, so investors should benefit by being highly selective and focussing on businesses that are more cyclical which tend to perform well as global economic activity picks up.

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