Ausbil Australian Active Equity

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1332AU[1]
AMP Flexible Super – Choice (Super)	AMP1461AU[1]
CustomSuper	AMP1290AU[1]
Flexible Lifetime – Allocated Pension	AMP1279AU[1]
Flexible Lifetime – Super	AMP1290AU[1]
SignatureSuper	AMP1304AU[1]
SignatureSuper – Allocated Pension	AMP1311AU[1]

[1]*This option is closed to new investors only.*

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 outperform the S&P/ASX 300 Accumulation Index over the medium to long term with moderate tax effective income by investing in a portfolio of listed Australian equities that are generally chosen from the S&P/ASX 300 Index. The investment manager seeks to position its portfolio towards those sectors and stocks which they believe will experience positive earnings revisions and away from those they believe will suffer negative revisions. At any time, the portfolio is tilted towards stocks which afford the most compelling opportunities for appreciation over the coming 12 months. Derivatives may also be used (primarily for the purpose of managing risk).

Investment category: Australian Equities

Suggested Investment Timeframe: 5+years

Relative Risk Rating: High

Investment Style: Core

Asset Allocation	Actual (%)	Range (%)
Total Equities	99.53	90-100
Cash	0.47	0-10

Holdings

Industry Exposure	%
Energy	6.94
Materials	30.71
Industrials	6.50
Consumer Discretionary	5.76
Consumer Staples	5.39
Health Care	4.61
Financials	32.96
Information Technology	4.36
Telecommunication Svcs.	0.0
Utilities	0.0
Real Estate	2.32
Cash	0.47

Regional Exposure	%
Australia	100

Top Ten Securities	%
BHP	8.70
Westpac Bank	7.57
Commonwealth Bank	7.38
Santos	4.92
BlueScope Steel	4.84
CSL	4.61
National Australia Bank	4.58
QBE Insurance	3.69
ANZ Bank	3.66
Macquarie	3.15

Market Commentary

The Australian equity market (represented by the S&P/ASX 300 Accumulation Index) delivered strong performance in the last quarter of 2017 to +7.7%. The price index closed above the 6000 point milestone which it last crossed before the Global Financial Crisis. Global equity markets also extended their all-time highs during the quarter (MSCI World: +5.6%, MSCI Emerging: +7.5%). For calendar year 2017, Australian equities (+11.9%) lagged their global counterparts (MSCI World: +23.1%, MSCI Emerging: +37.8%).

Domestically, small-cap stocks (S&P/ASX Small Ordinaries Accumulation Index: +13.7%) and mid-cap stocks (S&P/ASX MidCap 50 Accumulation Index: +11.9%) outperformed, while large-cap stocks (S&P/ASX 20 Accumulation Index: +6.1%) underperformed.

Commodity markets were generally higher. Energy was stronger (Metallurgical Coal: +36.2%, WTI Oil: +16.9%, Thermal Coal: +8.7%). Base, bulk and industrial commodities higher (Cobalt: +27.3%, Nickel: +22.0%, Copper: +12.0%, Iron Ore: +12.0% and Aluminium: +8.5%). Precious metals also edged higher (Gold +1.8% and Silver: +1.7%)

Resources outperformed with Energy (+18.2%) and Metals & Mining (+14.7%) well supported by commodity prices. Construction Materials (+16.8%) outperformed primarily due to ongoing strength in the US housing market. Commercial & Professional Services (+9.8%) also outperformed. Information Technology (+16.6%) was supported by M&A activity. Insurance (+9.5%) and Diversified Financials (+8.9%) outperformed with higher interest rates and buoyed capital markets but the Banks (+1.9%) underperformed due to lack of earnings growth, additional regulatory costs and slower credit growth. Real Estate (+6.1%), Utilities (+3.0%), Telecommunication Services (+6.2%) and Transportation (+1.9%) underperformed as the bond proxy sectors were negatively affected by higher interest rates.

Investment Option Commentary

During the quarter, the Fund exited a position in Telecommunication Services and Metals & Mining. The Fund rotated between the Banks and trimmed exposures in Steel and Real Estate Development. The proceeds were used to initiate a position in Energy and add to other Metals & Mining stocks.

Overall positioning continues to favour a growth tilt with overweight positions in Materials and offshore earners, whilst maintaining underweight tilts to interest rate sensitive sectors such as Real Estate Investment Trusts and Utilities.

Outlook

The new calendar year is expected to present a diverse set of opportunities in Australian equites. The resources-related sectors namely Metals & Mining and Energy are primary beneficiaries of improving global growth. These sectors are further supported by supply-side reforms in China as well as production cuts by the Organisation of Oil Exporting Countries (OPEC). The rebalancing in these commodity markets encourages disciplined capital expenditures for asset and reserve replenishment which also benefit the cyclically-oriented servicing firms. Other beneficiaries of improving global growth are companies with offshore earnings and capital market exposures. Ausbil is of the view that there is meaningful upside to earnings and free cash flow of Australian resources, as well as offshore-oriented cyclicals and diversified financial companies as these thematics make sustainable progress in line with global economic growth. Furthermore, continued innovation in research and technology is expected to favour leading health care companies which continue to dominate their respective industries.

Domestically, the banking sector continues to reflect a lack of earnings growth as regulators and central banks attempt to curb the unsustainable growth in house prices by enforcing stricter oversight of lending growth and standards. To some extent, this is expected to dampen domestic credit growth and sentiment. However, as the recovery in corporate profitability spreads to the broader economy via improved spending and lower unemployment, domestic companies are also expected to benefit from earnings upgrades.

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