BlackRock Australian Equity Absolute Return

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1873AU
AMP Flexible Super – Choice (Super)	AMP1869AU
Flexible Lifetime – Allocated Pension	AMP1857AU
Flexible Lifetime – Super	AMP1853AU
SignatureSuper	AMP1861AU
SignatureSuper – Allocated Pension	AMP1865AU

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.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

Overview

Aim & Strategy: To deliver returns that is 8% per annum above the RBA Cash Rate Target, before fees over rolling 3-year periods.

The Fund targets a zero net market exposure and aims to deliver absolute returns irrespective of the returns of the broader market. It invests in an underlying strategy called the BlackRock Australian Equity Market Neutral Fund which provides an exposure to long and short Australian equity positions and is based on BlackRock's quantitative process that uses a range of signals to look for mispriced stocks. This underlying investment may borrow securities from a counterparty that is a securities lender.

Investment category: Alternative

Suggested Investment Timeframe: 5 years

Relative Risk Rating: Medium

Asset Allocation	Actual (%)	Range (%)
Australian Shares	100	0-100
Cash	0	0-100

Holdings

Industry Exposure	Long %	Short %
Consumer Discretionary	15.3%	-16.8%
Consumer Staples	2.8%	-3.9%
Energy	4.5%	-3.0%
Financials	24.7%	-16.1%
Health Care	10.1%	-11.5%
Industrials	10.1%	-9.9%
Information Technology	5.3%	-4.5%
Materials	19.6%	-21.2%
Real Estate	7.6%	-7.4%
Telecommunication Services	1.2%	-1.5%
Utilities	2.3%	-1.1%

Regional Exposure	%
Australia	100

Top Ten Securities	%
BHP BILLITON LTD	3.1%
MAGELLAN FINANCIAL GROUP LTD	3.0%
ARISTOCRAT LEISURE LTD	3.0%
NATIONAL AUSTRALIA BANK LTD	3.0%
MEDIBANK PRIVATE LTD	3.0%
CSL LTD	3.0%
SUPER RETAIL GROUP LTD	3.0%
DULUXGROUP LTD	3.0%
COCHLEAR LTD	3.0%
CHARTER HALL UNITS	2.9%

Market Commentary

The S&P/ASX200 Accumulation Index finished the year with a positive month adding +1.8%, taking gains for the last quarter to +7.6%, and for 2017 to +11.8% with most of the gains in the latter part of the year. Global markets were also positive through the last quarter, and over the year, helped by positive global growth and the prospect of tax reform in the US. Commodity prices have been strong over the last three months notably metals, led by iron ore, copper, nickel and aluminium, as well as oil, after supply disruptions and renewed production curbs by OPEC.

Australian GDP just missed expectations growing by +0.6% over the September quarter, taking GDP to +2.8% for the year. Weak household spending contributed to this, as increases in spending for less discretionary items, such as electricity and fuel, were more than offset by spending in discretionary items such as alcohol and restaurants. Inflation has also been soft in part due to continued low wages growth. The unemployment rate finished the quarter lower at 5.4%, though an increase in participation rate masked a period of significant job creation. The RBA outlook was again unchanged as they maintained cash rates at +1.50%. The Australian dollar firmed, supported by higher commodity prices, finishing the year at US78.0c.

The higher oil price helped the Energy sector (+17.9%) record the highest gains over the quarter. Renewed interest in the high growth, technology sector resulted in Information Technology (+15.5%) also doing well. Miners and construction companies combined to help the Materials sector (+12.9%) rise. The Utilities sector (+3.2%) was higher yet was the worst performing sector over the quarter, followed by the Financials sector (+3.6%) which was held back by bank stocks.

The strategy reversed its positive run in 2017 posting a disappointing quarter. M&A activity dragged on performance, notably the takeovers of Westfield and Aconex (both short), with the Information Technology sector doing the worst for the quarter. Short positions in the mining, notably battery-related metals, and construction firms also hurt within the Materials sector. Unfavourable positioning in Consumer Discretionary was another source of detraction. Gains were seen through good positioning in Consumer Staples (food products), and long Energy names. Insights were generally negative over the quarter, mainly Relative Valuation insights which pulled back after a strong run in 2017. Trending insights, Earnings Direction and Market, also performed poorly, with only Earnings Quality insights posting a positive result.

Investment Option Commentary

The stock positions in the portfolio are based on combinations of signals, which exhibited the following performance characteristics over the quarter:

- Relative Valuation signals were the most negative group,
- Market signals were also negative,
- Earnings Direction signals were negative,
- Earnings Quality signals were positive,
- Timing signals were negative.

Stock Selection

On a market adjusted basis, amongst the top contributors for the quarter were long positions in Beach Energy (BPT) and St Barbara Mines (SBM). Amongst the largest detractors were short positions in Aconex (ACX) and Independence Group (IGO).

Top Contributors

BPT – The long position in oil and gas company Beach Energy was underpinned by strong Earnings Quality along with positive Timing and Relative Valuation insights. Over the quarter, the oil price was higher, and news flow from the company was positive, including further gas acquisitions and the satisfactory progress of their large Lattice acquisition.

SBM – The long position gold miner St Barbara Mines came through positive Earnings Quality and Relative Valuation insights, even as Timing insights were unfavourable. The company had record profits and cashflow, allowing it to be debt free, as they continued to grow their operations.

Top Detractors

ACX – The short position in software firm Aconex was due to all insights being negative, led by Relative Valuation, Earnings Direction and Timing insights. The stock rose sharply after their board recommended an acquisition proposal from global technology company Oracle.

IGO – The short position in mining company Independence Group was a result of negative across all insights, especially Market, Earnings Quality and Earnings Direction insights. Prices for copper and nickel were higher over the last three months, with the company also posting favourable quarterly production, including the commencement of a new mine, and improvements to some of its ore reserves.

Outlook

What's in store for 2018? BlackRock debated the prospects for inflation, the sustainability of low volatility, the market impact of elevated political risks and a range of other topics at our 13th semi-annual Investment Outlook Forum in mid-November. 2018 brings a number of political risks. Foremost are negotiations over the future of the North American Free Trade Agreement (NAFTA), which they see as a barometer for a new "America First" stance that could upset the global free-trade regime. Mexico, whose fortunes are closely tied to the future of NAFTA, tops a long list of EM elections.

Themes

BlackRock see a synchronized global expansion with room to run in 2018 and beyond, albeit with less scope for upside growth surprises. BlackRock see inflation making a modest comeback, led by the U.S., and expect the Federal Reserve to make slow but steady progress in normalizing policy. U.S. tax cuts could boost near-term growth and quicken the Fed's pace. The eurozone and Japan are behind on policy normalization, but their next steps in this direction will likely come into greater focus. BlackRock expect rewards for taking risk to be more muted across the board in 2018.

Outlook debate

BlackRock prefer equities over credit given tight spreads, low yields and a maturing cycle. BlackRock see rising profitability powering equity returns, especially in Japan and emerging markets, but earnings growth could wane. BlackRock like financials and tech. The steady expansion supports the momentum style factor, albeit with potential reversals; they see other factors as diversifiers. Plentiful global savings and a thirst for income should cap long-term bond yields. BlackRock prefer inflation-protected over nominal bonds in the U.S., and an up-in-quality stance in credit.