BlackRock Global Allocation

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1785AU
AMP Flexible Super – Choice (Super)	AMP1791AU
CustomSuper	AMP1815AU
Flexible Lifetime – Super	AMP1815AU
SignatureSuper	AMP1803AU
SignatureSuper – Allocated Pension	AMP1797AU

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 maximise total investment returns while managing risk by actively investing in global equities, debt and short-term securities. The investment manager actively allocates the portfolio between its investible asset classes and various types of securities and markets in response to changing market conditions and economic trends.

The investment process combines a top-down approach with bottom-up security selection and typically holds over 400 securities in the portfolio. There is generally no limit on the proportion of assets the portfolio can invest in a particular type of security and the portfolio has no geographic limits on where its investments may be located, although it will typically invest a majority of its assets in the securities of companies and governments located in North and South America, Europe and Asia. In selecting equity investments, the investment manager seeks to invest in securities which are believed to be undervalued and may also invest in equity securities of large, mid and small capitalisations as well as emerging growth companies. Typically no individual equity holding will represent more than approximately 1% of the portfolio. However, the number of securities held and the weight of individual securities can and will change based on the portfolio's objective. The portfolio may buy fixed income securities of varying maturities and may be invested in non-investment grade securities and convertible securities, although the portfolio may not hold more than one third of its assets in non-investment grade fixed income securities.

The performance benchmark is a weighted average of the Australian dollar hedged returns provided by market indices in underlying asset classes. Equity market indices include the S&P 500 Composite (total return) and the Financial Times/S&P Actuaries World index ex-US (total return). Fixed interest and cash indices include the Merrill Lynch Government Index GA05 (5 year Treasury Bond) and the Citigroup Non-USD World Government Debt Index. The portfolio may short sell securities and use financial derivatives such as futures, options and forward contracts to protect against risks or enhance returns. Currency is actively managed around a fully-hedged Australian dollar benchmark.

Investment category: Multi-sector (Specialist)

Suggested Investment Timeframe: 5+ years

Relative Risk Rating: Medium to high

Asset Allocation	Benchmark (%)	Actual (%)
Equities	60	61.65%
Fixed Income	40	30.06%
Commodity-Related	0	4.10%
Cash Equivalents	0	4.19%

Holdings

Industry Exposure	%
Consumer Discretionary	8.55%
Consumer Staples	3.34%
Energy	6.06%
Financials	8.26%
Healthcare	6.49%
Industrials	6.24%
Information Technology	11.37%
Materials	3.55%
Real Estate	1.58%
Telecom Services	2.53%
Utilities	2.41%
Index-Related	1.27%

Regional Exposure	%
North America	51.55%
Europe	17.75%
Asia	17.87%
Latin America	4.01%
Africa/Mid East	0.53%
Commodity-Related	4.10%
Cash Equivalents	4.19%

Top Ten Securities	%
Microsoft	1.77%
Apple	1.32%
Alphabet	1.03%
Bank of America	1.02%
Amazon	1.00%
Comcast	0.93%
Qualcomm	0.82%
Dow Dupont	0.77%
Danone	0.77%
Williams	0.69%

Market Commentary

In 2018, BlackRock expect a steady and improving global economy. While BlackRock continue to believe that a combination of structural changes will keep inflation low, they expect to see some modest firming of prices in the U.S. and potentially, China. This should lead to an environment of somewhat faster nominal GDP, which is positive for stocks but less so for bonds. While some investors may conclude that stocks appear expensive when analyzed in historical terms, corporate profit yields remain quite high compared to government bond yields. BlackRock believe that this combination of faster nominal growth and high relative profit yields should encourage investors to continue to favour equities over fixed income.

BlackRock believe that volatility may increase during the course of 2018, as central banks withdraw monetary accommodation. By mid-2018, aggregate central bank balance sheets are likely to start to shrink. This will put some, albeit modest, upward pressure on interest rates and may result in modest yield curve steepening. To the extent BlackRock also see some widening of historically tight credit spreads, equity volatility may start to increase as well.

Investment Option Commentary

When considering regional equity opportunities, we would note that more broadly U.S. stocks are currently trading in the upper-quartile of their historical valuation range. Some segments of the U.S. equity market, notably "bond-like" defensive stocks, have become particularly expensive, as conservative investors continue to venture out on the risk spectrum in search of fixed income substitutes. Conversely, non-U.S. stocks, which have experienced far less P/E multiple expansion in recent years relative to their U.S counterparts, tend to be priced more attractively. Expected margin expansion in Europe, share repurchases in Japan, and accommodative monetary policy in both regions, are other important reasons we prefer non-U.S. equites at this time.

Among sectors and industries, we also maintain certain preferences. For example, in our view, energy companies appear inexpensive relative to the rest of the market. In Europe, many of the large integrated oil companies offer attractive and sustainable dividend yields, while in the U.S., certain oil exploration & production companies possess very competitive cost structures, resulting in profitable operations even with oil priced at +$50/barrel. Meanwhile, we believe that U.S. consumer staples stocks have disproportionately benefited from the prevailing low interest rate environment, as some fixed income investors have gravitated toward these names as "bond surrogates" based on their reasonably attractive dividend yields and stable business models. Unfortunately, this prolonged trend has left the sector expensive relative to the broader U.S. equity market and vulnerable to possible increases in interest rates.

In December, the fund's overall equity exposure marginally increased, driven by modest purchases in Japan and Asia-ex Japan. From a sector perspective, the fund's largest increases were in technology, where we added to software and services companies that we feel have sustainable growth and profitability at an attractive valuation, and energy, primarily driven by price appreciation in an energy majors "basket". The fund's largest decreases in exposure were in healthcare, where we reduced our position in managed care names following consolidation in the industry, and consumer discretionary, as we reduced the fund's exposure to retailers.

While we continue to believe that U.S Treasures will offer some downside protection if equity market volatility rises from its unusually low levels, many other segments of the bond market look increasingly stretched on a valuation basis. For example, we view developed market sovereigns across Europe and Japan as quite unattractive. Meanwhile, considerable spread compression among both investment grade and non-investment grade bonds has resulted in scant relative yield advantages for these securities compared to local government bond issues. We believe that certain emerging market bonds offer reasonable value but recommend that investors be selective in terms of issuer, credit, and currency.

In December, the fund's exposure to global fixed income decreased, mainly due to reduced exposure to U.S. and non-U.S. sovereign bonds. Additionally, we exited our position in 5-year U.S. TIPS in favor of a duration neutral position in 5-year U.S. Treasuries based on our view that TIPS breakevens were close to fair value.

The fund is underweight duration globally, with a slight overweight position in U.S. duration and the largest underweight exposures in Europe and Japan.

As of month end, the fund's exposure to gold was approximately 4%. Gold serves as an important portfolio diversifier given its historical tendency to be non-correlated with global stocks, particularly in an environment where real interest rates remain low around the world.

The fund's cash position increased modestly in December due to decreases in the portfolio's exposure to fixed income.

During December, the portfolio's US dollar weighting modestly decreased to 62% and remains a slight overweight relative to its benchmark weight of 60%.

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 BalckRock 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. They 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. They 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.