BlackRock Scientific Hedged International Share

Quarterly Investment Option Update

30-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1336AU
AMP Flexible Super – Choice (Super)	AMP1465AU
CustomSuper	AMP0466AU
Flexible Lifetime – Allocated Pension	AMP0622AU
Flexible Lifetime – Investments (Series 1)	AMP0841AU
Flexible Lifetime – Investments (Series 2)	AMP1401AU
Flexible Lifetime – Super	AMP0466AU
Flexible Lifetime – Term Pension	AMP0911AU
SignatureSuper	AMP0788AU
SignatureSuper – Allocated Pension	AMP1140AU

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 provide returns before fees, that exceed the MSCI World (ex-Australia) Index (unhedged to the Australian dollar with net dividends reinvested), over rolling 3 year periods, while maintaining a similar level of investment risk to the index. Investment risk is managed by diversifying across the world's developed countries and currencies, and by holding the shares of a large number of companies within each country. This option is not hedged to the Australian dollar.

Investment category: Global equities

Suggested Investment Timeframe: 7+ years

Relative Risk Rating: High

Investment Style: Style neutral

Asset Allocation	Actual (%)	Range (%)
International shares	100	99-100
Cash	-	0-1

Holdings

Industry Exposure	%
Consumer Discretionary	13.9%
Consumer Staples	9.5%
Energy	3.8%
Financials	14.4%
Health Care	10.5%
Industrials	13.9%
Information Technology	21.1%
Materials	5.6%
Real Estate	1.4%
Telecommunication Services	2.9%
Utilities	2.6%
Cash	0.5%

Regional Exposure	%
Austria	0.70%
Belgium	0.19%
Canada	5.01%
Denmark	0.05%
Finland	1.06%
France	2.67%
Germany	3.46%
Hong Kong	0.85%
Ireland	0.02%
Italy	0.32%
Japan	9.04%
Netherlands	2.72%
New Zealand	0.00%
Norway	1.39%
Portugal	0.14%
Singapore	0.10%
Spain	0.33%
Sweden	2.50%
Switzerland	1.80%
United Kingdom	5.27%
United States	61.81%

Top Ten Securities	%
APPLE INC	2.3%
ROCHE HOLDING PAR AG	1.4%
FACEBOOK CLASS A INC	1.3%
BOEING	1.3%
MCDONALDS CORP	1.2%
MASTERCARD INC CLASS A	1.2%
ORACLE CORP	1.2%
WALT DISNEY	1.2%
CISCO SYSTEMS INC	1.2%
TEXAS INSTRUMENT INC	1.2%

Market Commentary

The MSCI World Ex Australia Index rose 5.81% in unhedged AUD terms and 5.54% in fully hedged to AUD terms in the fourth quarter of 2017. Global risk assets experienced a near-perfect year in 2017, with many delivering double-digit returns amidst strengthening economic growth, a pick-up in global corporate earnings and sustained low levels of volatility. Emerging market equities and developed small-caps were amongst the top performers for both the quarter and year, while European equities underperformed their international counterparts in the fourth quarter.

In the US, the S&P500 Index finished the quarter over 6% higher reaching record highs along the way. US economic activity was solid over the quarter and favourable tax reform developments helped push equities higher. Proposed tax cuts finally passed the US Congress (House of Representatives and Senate) on 20 December, making it Donald Trump's first major legislative victory as US President. The US$1.5 trillion tax bill includes permanent tax breaks for corporations and temporary tax cuts for individuals. These changes represent the most drastic overhaul of the US tax code in 30 years. The Federal Reserve proceeded down its path of returning US monetary policy to a more normal footing by lifting the target overnight interest rate by 25 basis points to a range of 1.25% to 1.50% during its December meeting (as widely expected by financial markets). This makes it the Fed's fourth consecutive quarterly rate increase in 2017. The December meeting showed that there was a higher number of Federal Reserve officials in favour of keeping US rates steady due to softer US inflation data, which put downwards pressure on the US dollar.

Macro data around the globe shows that economic growth is not only picking up in the U.S. but beyond. In Europe, the Markit Eurozone composite PMI (an indicator of the economic health of the manufacturing sector) came in at an all-time high of 58 in December. The European Central Bank (ECB) upgraded its Eurozone GDP growth and inflation forecasts for 2018 and 2019, while keeping its deposit and refinancing rates unchanged. The ECB now anticipates Eurozone GDP growth of 2.3% in 2018 and 1.9% in 2019 (vs 1.8% and 1.7% respectively). During its December meeting, Mario Draghi the ECB President mentioned 'greater confidence' in reaching inflation targets and 'solid and broad-based growth momentum'. Draghi said the Eurozone had benefitted from a 'broad based global expansion' alongside accommodative central bank policy. Looking at the political landscape, the UK and European Union (EU) struck a deal on Brexit divorce terms that provides more certainty over the path ahead for the negotiations and paves the way for talks on a transition deal and future trade arrangements. The UK agreed to pay a financial settlement to the EU estimated between £45-£55bn. Progress was also made on the two other issues; EU citizens' rights and the Irish border. However, some political issues re-surfaced in December with ongoing speculation about Catalan independence and the announcement of the date of the Italian election. The Italian President Sergio Mattarella has dissolved parliament and called a general election in Italy on 4 March 2018. The latest polls suggest there will be no clear winner and a hung parliament is likely. The Stoxx Europe 600 index finished the quarter relatively flat. Looking at emerging market equities, the strong 2017 performance continued in the final quarter, with the MSCI Emerging Market Index increasing 5.2% in Q4 and over 30% over the year.

Investment Option Commentary

The international stock selection strategy finished the year strongly posting another very positive quarter of performance, with the broad market also rising. Momentum and Quality led the way with some contribution from Cross Border Thematics and Sentiment; only Value insights struggled. Positive performance was mainly from the US, though most regions contributed with the exception of Far East Asia. In the US, nearly all sectors contributed positively, the standouts being Information Technology and Industrials. Other notable contributions came from European Financials, Materials and Health Care, as well as Japanese Energy and Financials. Globally the Information Technology sector did best, followed by Industrials, whilst Consumer Discretionary and Utilities names detracted over the quarter.

Positive contributors to performance included an underweight in General Electric and an overweight Adobe.

GE disappointed investors, missing their third quarter earnings, a result of impairments and poor performance from their Power division, which they subsequently planned to restructure. Very poor Sentiment and Momentum insights drove the underweight position.

Software company Adobe rose strongly after announcing better than expected growth across all of its divisions, delivering record quarterly revenues for Q4, and raising their 2018 revenue target. Favourable Sentiment, Cross Border Thematics and Quality led to the overweight position.

Detractors from performance included overweights in Peugeot and Hasbro.

French car manufacturer Peugeot SA fell after announcing a strategic turnaround plan for its underperforming Opel/Vauxhall business that the company had relatively recently acquired. Favourable Valuation and Cross Border Thematic insights helped the overweight position.

Toy company Hasbro had a favourable earnings update yet fell after lowering fourth quarter guidance on concerns of the closure of a large toy retailer. The overweight position came about as most insights were moderately positive with Cross Border Thematics, Sentiment and Quality the most positive.

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 the team 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. 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.