Lazard Global Small Cap

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1769AU
AMP Flexible Super – Choice (Super)	AMP1757AU
CustomSuper	AMP1714AU
Flexible Lifetime – Allocated Pension	AMP1718AU
Flexible Lifetime – Super	AMP1714AU
Signature Super	AMP1736AU
Signature Super – Allocated Pension	AMP1748AU

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 achieve total returns (includes income and capital appreciation and before the deduction of fees and taxes) that exceed those of the MSCI World Small Cap Accumulation Index by 3% per annum over rolling 3 year periods. The investment strategy is to provide investors with access to investments in global small companies in any geographical location. The portfolio will generally have:

- Limits on the equity securities (including securities convertible into equity securities) holdings of any one issuer at the time of purchase;

No more than 25% of the assets may be invested in the equity securities (including securities convertible into equity securities) of issuers located in emerging market countries. Emerging market countries will be determined by the investment manager but are generally considered to be countries not included in the MSCI World Small Cap Accumulation Index.

Investment category: Global equities

Suggested Investment Timeframe: 5+ years

Relative Risk Rating: High

Investment Style: Small Cap – Value

Asset Allocation	Benchmark (%)	Range (%)
Small Cap Equities	100%	95-100%
Cash	0%	0-5%

Holdings

Industry Exposure	%
Consumer Discretionary	13.1
Consumer Staples	1.0
Energy	3.8
Financials	11.2
Health Care	3.6
Industrials	22.8
Information Technology	18.3
Materials	11.1
Real Estate	10.3
Telecommunication Services	2.0
Utilities	0.0
Cash	2.7

Regional Exposure	%
Europe ex UK	13.8
UK	11.6
North America	47.0
Japan	13.8
Asia Pacific ex Japan	6.7
Middle East & Africa	0.9
Emerging Markets	3.5
Cash	2.7

Top Ten Securities	%
Aroundtown	1.9
RPC Group	1.8
TORIDOLL Holdings	1.7
Malibu Boats	1.6
Atkore International	1.6
Savills	1.5
Sanwa Holdings	1.5
Aalberts Industries	1.5
National Storage	1.5
Deluxe Corporation	1.5

Market Commentary

Global equities rose further in the fourth quarter of 2017. Growth indicators remained broadly positive, especially in Europe, and commodities, including oil, were on a firmer footing while a material corporate tax reduction plan was finalized in the United States. Meanwhile bond yields remained at historically low levels. In this environment, money continued to flow into equities with a cyclical bias. Global small cap equities also generated solid returns during the quarter. More cyclical sectors such as materials, industrials, and consumer discretionary outperformed while telecommunications and utilities lagged. Asian and UK stocks outperformed while Continental Europe, while positive, was relatively weaker.

Investment Option Commentary

The Fund exhibited strong stock selection in the real estate and industrials sectors, offset in part by poorer stock selection in healthcare and energy. By region, strong stock selection in Japan, Continental Europe, and Canada was partly mitigated by weaker stock selection in the United Kingdom.

GMO Internet, a Japanese-listed company that provides internet infrastructure services such as advertising, payment processing, and security systems, as well as one of the largest online retail currency trading platforms, contributed to performance in the quarter. In October, its listed payment processing subsidiary announced preliminary results that showed ongoing strong sales growth. This was followed up by a broker initiation report with a “buy” rating that supported the positive market reaction to the earnings announcement. The Fund continues to hold the stock given the strength of its market position and the growth potential in the payment processing space.

Toridoll, a Japan-based operator of fast-food noodle shops, also contributed to performance. The company announced the acquisition of the second of the two leading fast food noodle chains in Hong Kong (it acquired the other in May), which boosted the stock price after November’s neutral results. Toridoll has made a number of overseas acquisitions, which should add to the company’s growth and support its overseas expansion plans of its domestic brand. The Fund remains holders of the shares and are confident in management’s ability to execute on its M&A strategy and maintain steady domestic growth and profitability.

NCS Multistage Holdings, a US-listed energy company with differentiated technology used in domestic oil production/fracking, detracted from performance during the quarter. While the company discussed promising trends on customer/technology adoption on its third-quarter earnings call, a weak outlook for its Canadian business in the fourth quarter prompted lower forward guidance. Given the company’s profitable position (unlike many energy companies) and promising technology outlook, the Fund continues to hold the shares.

RPC Group, a UK-listed specialty packaging company, detracted from performance. After a rebound from concerns earlier in the year regarding acquisitions and free cash generation versus expectations, some investors viewed the company’s organic revenue growth as reported in late November as wanting. However, we were encouraged by lower exceptional and strong cash flow, and we continue to hold the shares.

Outlook

From an economic standpoint, data is encouraging in broad geographic terms. US employment and just-approved tax cuts as well as global PMI data points remain positives, and European economies continue to show signs of improvement and strengthening. Chinese consumers are spending again albeit with the help of rising personal credit. Longer term the shift from an investment-driven to consumer-driven economy will take time and have its share of fits and starts. Politics and geopolitical tensions, most notably on the Korean peninsula, remain areas to watch. The direction of interest rates in the United States, Europe, and Asia will also continue to demand the attention of investors, especially in a world with significant gross debt levels. Many share prices today still appear dependent on both improved economic recovery and a continuation of currently very low interest rates. As always, the team remains faithful to its investment philosophy of investing in companies that demonstrate high or improving financial productivity at relatively attractive prices.