

Professional Growth

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide moderate to high investment returns over the long term, with the likelihood of significant fluctuations in the value of the investment from year to year. The portfolio will primarily invest in a diversified mix of defensive and growth assets managed by professional asset managers identified and selected by ipac within each asset class.
(Multi Sector (Traditional) investment approach)

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

| Product name | APIR |
|---|-----------|
| AMP Flexible Lifetime Super | AMP1956AU |
| AMP Flexible Super - Retirement account | AMP1963AU |
| AMP Flexible Super - Super account | AMP1970AU |
| Flexible Lifetime - Allocated Pension | AMP1949AU |
| Flexible Lifetime Investment (Series 2) | AMP1981AU |
| Signature Super | AMP1731AU |

| Asset Allocation | Benchmark | Range (%) |
|------------------------|-----------|-----------|
| Australian Shares | 35 | 31-45 |
| Global Shares | 37 | 30-44 |
| Growth Alternatives | 4 | 0-10 |
| Australian Property | 8 | 0-30 |
| Global Property | | |
| Global Infrastructure | | |
| Defensive Alternatives | 4.5 | 0-10 |
| Australian Bonds | 3.75 | 0-10 |
| Global Bonds | 3.75 | 0-10 |
| Cash | 4 | 0-20 |

Investment Option Overview

| | |
|---------------------------------------|-------------------------------------|
| Investment category | Diversified - Moderately Aggressive |
| Suggested investment timeframe | 5 - 7 years |
| Relative risk rating | Medium - High |
| Investment style | Multi Manager |

| Top Ten Australian Shares Exposure | % |
|---|------|
| COMMONWEALTH BANK AUST | 8.34 |
| Westpac Banking Corp | 6.50 |
| BHP Billiton Ltd | 5.71 |
| Australia & New Zealand Banking Group Ltd | 5.19 |
| National Australia Bank Ltd | 4.76 |
| CSL Ltd | 3.80 |
| WESFARMERS LTD | 2.81 |
| TELSTRA CORP LTD | 2.46 |
| Rio Tinto Ltd | 2.25 |
| WOOLWORTHS GROUP LTD | 2.10 |

| Top Ten International Shares | % |
|---|------|
| Westpac Banking Corp | 1.64 |
| COMMONWEALTH BANK AUST | 1.60 |
| National Australia Bank Ltd | 1.57 |
| Australia & New Zealand Banking Group Ltd | 1.53 |
| Visa Inc | 1.18 |
| Alphabet Inc | 1.18 |
| Royal Dutch Shell PLC | 1.03 |
| APPLE INC | 1.02 |
| Home Depot Inc/The | 0.99 |
| Facebook Inc | 0.99 |

| Actual Allocation | % |
|-------------------------------|-------|
| Australian Shares | 32.70 |
| International Shares Unhedged | 29.68 |
| International Shares Hedged | 10.25 |
| Cash | 8.89 |
| Real Assets | 6.50 |
| Alternative Defensive | 4.98 |
| Alternative Growth | 4.12 |
| Government Bonds | 1.89 |
| Multi Strategy Fixed Income | 1.00 |

Investment Option Commentary

International equity markets saw yet another very strong quarter and were again accompanied by very low levels of volatility. Globally, conditions remain in somewhat of a sweet-spot, with strong economic growth and supportive financial conditions, even as the US (and others) raised interest rates. Global shares ended the period up around 5.3%, as measured by the MSCI World ex Australia Net Index in local currency terms. (The return was slightly stronger in Australian dollar terms due to currency movements.)

The US S&P 500 Total Return Index continued to climb through record-highs and closed the quarter up 6.6% (in US\$ terms) as corporate earnings remained strong and President Trump's proposed tax cuts continued to drive optimism. Emerging markets also did well, outperforming their developed counterparts, as they continued to benefit from the global pickup in trade and generally strong resource prices (All figures in local currency terms).

Australian shares had a stellar December quarter, with the S&P/ASX 200 Index rising by 7.6% on a total return basis. In a period when all sectors posted positive returns, the best performers were energy, information technology and materials, whilst utilities, financials and industrials underperformed (despite still doing well in absolute terms). The quarter saw investors become less optimistic on Australian banks, on the news of an upcoming Royal Commission into alleged misconduct in the financial services industry. Australia's financial companies are already under a significant degree of scrutiny by regulators, and markets are concerned about what the upcoming investigations may unearth, particularly in regard to lending practices. Looking at the market as a whole, some analysts have continued to question whether Australian corporate earnings' multiples are too optimistic, given some of the challenging economic conditions in Australia such as low growth, high debt levels, weak consumer spending, lack of wages growth and rising living costs. However, population growth and a pickup in LNG exports are likely to provide some positive support.

Global government bond yields were mostly mixed over the first two months of the December quarter. The US 10-year bond yield moved higher amid continued signs of strength in the US economy and generally favourable corporate profit results. In contrast, yields in Japan edged lower, while those in Germany remained relatively stable. The mixed pattern of yield movements continued into December, amid the legislative passage of US tax reforms and a commitment by the European Central Bank to continue with monetary stimulus.

Australian government bond yields moved lower over the course of the first two months of the quarter, weighed down by anaemic wages growth and a deceleration in retail sales, before moving higher during December as the overall tone in data releases improved during the month.

Overall, we believe market returns in 2018 will be lower than in 2017 and market volatility will rise from the exceptionally low levels experienced last year. But to be sure, we continue to expect that investors in our diversified funds will be rewarded with attractive positive returns which are well in excess of the cash rate and that will serve to grow their purchasing power.

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