

Responsible Investment Leaders Australian Share

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling 5 year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange and is managed using a Responsible Investment approach.

In certain market conditions, the portfolio may hold a higher level of cash.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1032AU
AMP Flexible Super - Retirement account	AMP1370AU
AMP Flexible Super - Super account	AMP1499AU
CUSTOM SUPER	AMP1032AU
Flexible Lifetime - Allocated Pension	AMP1021AU
Flexible Lifetime - Term Pension	AMP1042AU
Flexible Lifetime Investment	AMP1055AU
Flexible Lifetime Investment (Series 2)	AMP1433AU
Signature Super	AMP0976AU
Signature Super Allocated Pension	AMP1172AU

Investment Option Overview

Investment category	Australian Equities
Suggested investment timeframe	5-7 years
Relative risk rating	High
Investment style	Responsible investing / Multi-manager

Asset Allocation	Benchmark	Range (%)
Australian Shares	100	90-100
Cash	0	0-10

Top Ten Australian Share Exposure	%
Westpac Banking Corp	7.59
COMMONWEALTH BANK AUST	7.31
BHP Billiton Ltd	6.74
National Australia Bank Ltd	6.43
CSL Ltd	5.66
MACQUARIE GROUP LTD	4.60
Australia & New Zealand Banking Group Ltd	4.15
Rio Tinto Ltd	2.72
Janus Henderson Group PLC	2.66
Transurban Group	2.49

Industry Exposure	%
Financials	37.12
Materials	17.98
Health Care	11.92
Industrials	11.39
Energy	4.03
Real Estate	3.97
Information Technology	3.38
Consumer Discretionary	3.35
Consumer Staples	3.25
Telecommunication Services	1.42
Cash	1.14
Utilities	1.03
Others	0.02

Portfolio Summary

- > The Fund posted a strong positive return and comfortably outperformed its benchmark over the December quarter.
- > Australian shares had a stellar December quarter - the best performers were energy, information technology and materials.
- > Defensive companies that historically have offered high and stable dividends are likely to continue to underperform.

Investment Option Commentary

The Fund posted a strong positive return and comfortably outperformed its benchmark over the December quarter. All of the Fund's underlying managers posted positive returns however DNR Capital was the standout performer. Bennelong was a relative laggard after outperforming in the September quarter.

Stock selection was again the main contributor to relative returns over the quarter, whilst asset allocation had a very small negative impact. From an asset allocation perspective, the Fund benefited from overweight positions in the information technology and materials sectors, but was negatively impacted by underweight positions in the consumer staples and energy sectors which were also outperformers.

Stock selection was particularly strong in the financials, materials, industrials and energy sectors but was a detractor in real estate and consumer discretionary. Within financials, exposure to the initial public offering of software provider Netwealth Group in November was a key contributor as the shares rose by 44% on debut. However, the largest single contributor to Fund performance over the quarter was an overweight position in metals & mining company BlueScope Steel which rose by more than 40%. BlueScope Steel outperformed the market as it recovered from a temporary contraction in global steel spreads.

The biggest single detractor was an overweight position in National Australia Bank whose share price fell by a little over 3% in the December quarter. The company's share price fell after a large restructuring of the workforce was announced in November with expected redundancies of almost one in every five staff members. The bank's share price was also weighed down by the upcoming Royal Commission into the banking sector.

Market commentary

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. A standout positive performer for the quarter was gas/oil explorer and producer, Origin Energy, as investors continued to gain optimism from rising consumer energy prices, as well as management's debt-reduction strategy. 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.

Outlook

Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting rather than investing back into the business for growth. Banking profitability is likely to continue to be stifled by capital-holding requirements. The mining sector remains highly susceptible to any pause in activity from China. Defensive companies that historically have offered high and stable dividends are likely to continue to underperform in a rising US interest rate environment, so investors should benefit by being highly selective and focussing on businesses that are more cyclical which tend to perform well as global economic activity picks up.

Continuing work in AMP Capital's key engagement themes

The Responsible Investment Leaders' (RIL) managers continued their engagement activities in the final quarter of 2017. Corporate governance in Australia was a focus for RIL's Australian equity managers with the AGM season providing the opportunity to actively vote on governance issues including executive pay and meet with the boards of ASX200 companies. Key issues raised with Australian boards were climate change (resilience in the face of climate change, company disclosure on emissions, and efforts to combat global temperature rises), executive pay levels, gender diversity, human rights in supply chains (labour rights and slavery) and pay issues in the franchise sector. On climate change, several of RIL's managers became signatories to an investor climate change initiative called the Climate 100+. This is a new five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change. So far 225 investors responsible for more than US\$26.3 trillion of assets under management have committed to the initiative, including AMP Capital and Ausbil.

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