

Responsible Investment Leaders International Share

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

Aim and strategy: To provide a total return (income and capital growth) after costs and before tax, above the MSCI All Country World Index on a rolling 5 year basis. The portfolio invests primarily in international shares diversified across countries, industries and types of companies and is managed using a Responsible Investment approach. The portfolio may also invest a portion of its assets in emerging markets. 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	AMP1036AU
AMP Flexible Super - Retirement account	AMP1374AU
AMP Flexible Super - Super account	AMP1503AU
CUSTOM SUPER	AMP1036AU
Flexible Lifetime - Allocated Pension	AMP1025AU
Flexible Lifetime - Term Pension	AMP1046AU
Flexible Lifetime Investment	AMP1059AU
Flexible Lifetime Investment (Series 2)	AMP1437AU
METCASH SUPERANNUATION PLAN	AMP1036AU
SignatureSuper	AMP1068AU
SignatureSuper Allocated Pension	AMP1176AU

Investment Option Overview

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

Top Ten International Shares Exposure	%
Johnson & Johnson	2.02
Alphabet Inc	1.76
3M Co	1.75
PepsiCo Inc	1.71
APPLE INC	1.48
Samsung Electronics Co Ltd	1.35
Cigna Corp	1.32
Cummins Inc	1.25
Statoil ASA	1.23
Accenture PLC	1.12

Regional Exposure	%
North America	51.96
Europe ex UK	16.06
Asia ex Japan	13.87
United Kingdom	5.56
Japan	5.50
Others	3.43
Cash	2.39
Australasia	1.23

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

Industry Exposure	%
Information Technology	20.72
Financials	20.16
Health Care	10.28
Consumer Discretionary	10.11
Industrials	9.83
Consumer Staples	8.71
Energy	5.12
Materials	4.10
Real Estate	3.17
Utilities	2.85
Cash	2.39
Telecommunication Services	2.34

Industry Exposure	%
Others	0.20

Portfolio Summary

- > The Fund generated a very strong return and outperformed the benchmark in the December quarter.
- > Global share markets were again up very strongly.
- > Japanese and European equities continue to be our pick to see better performance in this macro environment.

Investment Option Commentary

The Responsible Investment Leaders (RIL) International Share Fund generated a very strong return and outperformed the benchmark in the December quarter. All underlying managers produced strong absolute returns.

Lazard's global equities portfolio was again the best performing developed-markets manager, in both absolute and relative terms. Stock selection remained favourable towards the end of the year, and the performance was further aided by strength in the consumer discretionary and real estate sectors. Heading into 2018, Lazard is monitoring downside risks such as commodity prices, wage growth levels and excess credit, which they believe could provide some volatility and opportunities through the year.

Investec's developed markets portfolio was also very strong in the December quarter in both absolute and relative terms. Recently, Japanese heavy equipment maker Komatsu contributed to performance as their shares outperformed amid a strong mining sector and following a positive investor update. AIA, a Hong Kong-based insurer has also strongly contributed to the manager's return in recent times, helped by strong economy conditions.

Within the allocation to the RIL Emerging Markets Fund, Investec was again the best performer over the quarter. This was despite their holding in Alibaba being sold off in December on anticipation of intensifying competition with rivals Tencent and JD after they invested over US\$860 million in online discounter Vipshop. Investec believe that valuations in emerging markets are no longer at bargain basement levels, but remain at a significant discount to developed markets.

Market 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. Most other major markets were also very strong, with Japan's TOPIX 100 Net Total Return Index up 8.7%, UK's FTSE 100 Accumulation Index returning 5.0% and the Chinese S&P/CITIC300 Total Return Index returning 6.0%. Continental European shares however ended the quarter close to flat. Emerging markets also did well, the MSCI Emerging Markets Accumulation Index closing up another 5.7% and outperformed 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).

Outlook

Although the US administration has been broadly positive for stocks, there has been considerable uncertainty regarding future actions, particularly before the signing into law of the tax reforms in late December and some continuing political uncertainty. However, following any short-term weakness, we still expect shares to trend higher over the next 12 months, helped by the synchronised pickup in global economic activity data and the flow-through to growth and corporate earnings. Japanese and European equities continue to be our pick to see the better performance in this macro environment.

Environmental, Social and Governance (ESG)

AMP Capital is a signatory to the Bangladesh Accord which commits global brands, retailers, investors and other parties to ensuring a safe and healthy Bangladeshi garment industry. This was established following the Rana Plaza building collapse in April 2013 which caused over 1,100 casualties and led to greater scrutiny of the industry's supply chain. The company has more recently signed the Bangladesh investor statement which encourages the Accord to extend its work beyond the May 2018

endpoint. AMP Capital is now examining supply chains in other industries, especially in the electronics and food and agricultural sectors. Inadequate supply chain management risks business interruption and reputational damage which directly impact the sustainability of earnings and the value of brand equity. During the quarter, meetings were held with Australian retailers including Woolworths and Wesfarmers in order to better understand these risks to the portfolio. Cocoa and palm oil supply chains are particular areas of concern. In December the joint federal parliament committee called upon the government to introduce a Modern Slavery Act to eliminate the practice and enhance transparency across supply chains. It would include mandatory supply chain reporting for companies with annual revenue of more than \$50 million. The ESG team is engaging with a range of companies in order to better understand how the increased reputational risks would be managed should directors and executives be required to personally sign annual statements confirming compliance.

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