

Schroders Australian Equities

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1375AU
Flexible Super – Choice (Super)	AMP1504AU
CustomSuper	AMP0564AU
Flexible Lifetime – Allocated Pension	AMP0636AU
Flexible Lifetime – Investments (Series 1)	AMP0995AU
Flexible Lifetime – Investments (Series 2)	AMP1438AU
Flexible Lifetime – Super	AMP0465AU
Flexible Lifetime – Term Pension	AMP0944AU
MultiFund Flexible Income Plan	AMP0990AU
Signature Super	AMP0813AU
Signature Super – Allocated Pension	AMP1177AU

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 outperform the S&P/ASX 200 Accumulation Index over the medium to longer term. The core of the investment manager's investment philosophy is that corporate value creation, or the ability to generate returns on capital higher than the cost of capital, leads to sustainable share price outperformance in the long term. The investment process is a combination of qualitative industry and company competitive position analysis and quantitative financial forecasts and valuations.

Investment category: Australian equities

Suggested Investment Timeframe: 3 to 5 years

Relative Risk Rating: High

Investment Style: Growth / Quality

Asset Allocation	Actual (%)	Range (%)
Equities	96.7%	95%-100%
Cash	3.3%	0%-5%

Holdings

Industry Exposure	%
Energy	4.5
Materials	25.4
Industrials	8.3
Consumer Discretionary	5.6
Consumer Staples	7.4
Health Care	1.7
Information Technology	0.8
Telecommunication Services	3.9
Utilities	2.1
Property Trusts	3.3
Financial-X-Property Trusts	33.7
Cash	3.3

Top Ten Securities	%
Commonwealth Bank of Australia	6.7%
BHP Billiton Limited	6.7%
ANZ Banking Group Ltd.	5.6%
Westpac Banking Corporation	5.6%
National Australia Bank Limited	4.4%
Rio Tinto Limited	4.3%
Woolworths Group Ltd	4.2%
Telstra Corporation Limited	3.7%
CYBG PLC	2.5%
Brambles Limited	2.5%

Investment Option Commentary

Contributors

Santos (o/w, +35.6%) Stronger oil and Asian LNG prices in the short term have provided a more supportive environment for Santos to deliver stronger cash flow from its extensive asset base. The solid improvements which the business has made to the cost base further enhance this position. Whilst the value of the business will always remain significantly tied to longer term views on LNG prices, the Fund continues to believe valuation looks more than reasonable.

James Hardie (o/w, +28.4%) Despite quarterly volatility in margins and revenue which often drives share price over-reaction in both directions, the Fund remains attracted to the combination of organically focused investment, an exceptional market position in fibre cement and a market share and growth profile which offers significant scope for future value creation.

Independence Group (o/w, +37.6%) A range of commodity exposures across gold, nickel, zinc, not to mention some copper and cobalt in the company's Nova project, position the company well. The fund manager continues to believe valuation is undemanding based on the longer run commodity prices. These price assumptions have not been changed and are not changed lightly in response to bouts of short term euphoria which are plentiful in an environment of relatively rampant speculation.

Detractors

Lend Lease (o/w, -8.8%) Recent hiccups in the construction business across a few projects will dent short term profitability. Nevertheless, the report card over recent years has generally been positive as counter cyclical investments such as Barangaroo have delivered significant value. Although the ability of highly competitive operations such as property development to digest heavy corporate cost structures such as those of Lend Lease always cause us some consternation, this is balanced by a sensible and measured approach to growth, where almost all initiatives have been organic.

Fletcher Building (o/w, -6.5%) New CEO Ross Taylor, has inherited a business with some 38 operating businesses assembled through many years of misguided acquisition activity (you may be noticing a theme here). The core NZ operations across hardware and construction remain the best performers and highly attractive. The opportunity to extract better performance from an asset base which is unwieldy yet has significant potential is attractive.

Outlook

The Fund favours businesses seeking to create business value through organic investment in plant and equipment, labour and R&D at book value over acquisition based expansion will remain. Much of the materials sector along with some industrials remains in this category and also remains very sensibly valued. As prices move ever higher, the likelihood of creating enduring value through an acquisition based strategy will move ever lower. Extraordinary gains through 'investment' in crypto currencies and tech start-ups provide ample sign that investment has given way to speculation in many instances. As always, however, as money chases short term gain, opportunities will be left behind.

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