Specialist 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 300 Accumulation Index on a rolling 3 year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange. Managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the Australian Securities Exchange. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars.
The portfolio may use derivatives such as options, futures or swaps to protect against risks or enhance returns. The portfolio may also short sell securities.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0655AU
AMP Flexible Super - Retirement account	AMP1346AU
AMP Flexible Super - Super account	AMP1475AU
AMP Growth Bond	AMP1193AU
CUSTOM SUPER	AMP0655AU
Flexible Lifetime - Allocated Pension	AMP0600AU
Flexible Lifetime - Term Pension	AMP0921AU
METCASH SUPERANNUATION PLAN	AMP0655AU
MultiFund Flexible Income Plan	AMP0734AU
Signature Super	AMP0797AU
Signature Super Allocated Pension	AMP1150AU

Investment Option Overview

Investment category	Australian Equities
Suggested investment timeframe	5 - 7 years
Relative risk rating	High
Investment style	Multi-Manager

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

Top Ten Securities Exposure	%
COMMONWEALTH BANK AUST	7.84
BHP Billiton Ltd	6.42
Australia & New Zealand Banking Group Ltd	6.11
Westpac Banking Corp	5.88
National Australia Bank Ltd	4.44
Rio Tinto Ltd	4.41
Suncorp Group Ltd	3.41
MACQUARIE GROUP LTD	3.11
WESFARMERS LTD	2.60
CSL Ltd	2.59

Industry Exposure	%
Financials	35.10
Materials	20.27
Industrials	7.58
Consumer Discretionary	7.32
Consumer Staples	6.55
Energy	5.83
Real Estate	4.32
Health Care	4.12
Cash	2.69
Information Technology	2.23
Telecommunication Services	2.00
Utilities	1.76
Others	0.22

Portfolio Summary

> The Fund posted a positive return and outperformed its performance benchmark (before fees) during the December quarter.
> All but one of the Fund's five managers outperformed, in a market which rallied during the quarter.
> 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 (before fees) over the December quarter. All five of the Fund's underlying managers posted positive returns and, with the exception of Ironbark, all managers also outperformed their respective benchmarks.

Both asset allocation and stock selection had a positive impact on performance relative to the benchmark although the contribution from the latter was much more significant than the former. From an asset allocation perspective, the main contributor to outperformance was an overweight position in the materials sector which rallied in line with commodities. There were no material detractors arising from asset allocation decisions.

In terms of stock selection, the managers were particularly strong in the consumer discretionary, materials and information technology sectors. Within consumer discretionary, overweight positions in Star Entertainment and Crown Resorts were the main positives. Overweight positions in James Hardie Industries and Rio Tinto within materials and Wisetech Global within information technology also boosted returns. The position in Wisetech Global was the single largest contributor to outperformance. Shares in the company have continued to soar following the company's August release of stellar annual financial results. The market remains optimistic about the potential for significant earnings growth and ongoing dividends for shareholders appears well-supported by the company's debt-free balance sheet and dominant market position in Australia and offshore.

The biggest single stock detractor from performance was an overweight holding in LendLease Group, which fell early in the quarter after revealing cost over-runs in its construction division.

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.

Contact Us

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)

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