Specialist Australian Small Companies

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, higher than the return from the S&P/ASX Small Ordinaries Accumulation Index on a rolling 3 year basis. The portfolio invests in small companies listed on the Australian Securities Exchange (ASX).

For this portfolio small companies are considered to be those outside the top 100 listed companies (by market value). Up to 20% of the portfolio may be invested in unlisted companies that the investment manager believes are likely to be listed in the next 12 months, or in companies between the top 50 and 100 listed on the ASX.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0863AU
AMP Flexible Super - Retirement account	AMP1347AU
AMP Flexible Super - Super account	AMP1476AU
CUSTOM SUPER	AMP0863AU
Flexible Lifetime - Allocated Pension	AMP0879AU
Flexible Lifetime - Term Pension	AMP0933AU
Flexible Lifetime Investment	AMP1005AU
Flexible Lifetime Investment (Series 2)	AMP1141AU
METCASH SUPERANNUATION PLAN	AMP0863AU
Signature Super	AMP0951AU
Signature Super Allocated Pension	AMP1147AU

Investment Option Overview

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

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

Top Ten Securities Exposure	%
Gateway Lifestyle	3.41
Navigator Global Investments L	2.52
Collins Foods Ltd	2.26
Imdex Ltd	1.96
Bapcor Ltd	1.95
Seven Group Holdings Ltd	1.94
Steadfast Group Ltd	1.92
Emeco Holdings Ltd	1.90
NEXTDC Ltd	1.81
WorleyParsons Ltd	1.78

Industry Exposure	%
Consumer Discretionary	17.44
Industrials	15.72
Materials	15.41
Financials	10.00
Real Estate	8.15
Energy	7.48
Information Technology	7.48
Health Care	6.90
Cash	5.86
Consumer Staples	3.90
Utilities	1.21
Telecommunication Services	0.45

Portfolio Summary

- The Fund produced a strong absolute return and underperformed its benchmark over the December quarter.
- Smaller companies performed strongly, again outperforming the broader Australian equities market.
- Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting rather than margin expansion.

Investment Option Commentary

The Fund produced a strong absolute return and underperformed its benchmark over the December quarter. All of the underlying managers posted positive absolute returns, with Perennial outperforming whilst Ely Griffiths Group and UBS underperforming.

From a sector allocation perspective, an underweight to real estate investment trusts was the primary contributor to relative performance whilst underweights to consumer staples and materials and being overweight to consumer discretionary were the main detractors from returns. Cash held in the Fund also detracted from relative performance as the market rose strongly during the period. Stock selection was the primary driver of relative returns for the period. In particular, the Fund benefited from strong selection within the industrials, materials and real estate space.

Stock holdings such as Alliance Aviation Services (+49%), Integral Diagnostics (+39%), Metals X (+31%), Navigator Global Investments (+24%), Sino Gas & Energy (+68%) rallied strongly over the period, whilst having nil exposure to Retail Food Group (-42%) also benefitted the Fund. Conversely, the Fund's overweight exposure to Collins Foods (-6%) and underweights in Lynas Corporation (+12%), Aconex (+92%) and Beach Energy (+53%) were the main detractors.

The single largest stock contributor was an overweight holding in Alliance Aviation Services, which provides fly-in fly-out air charter services for the Australian mining industry. The company continued to receive market support as it is seen to benefit alongside other mining services providers from the renewed interest in commodities.

The largest single stock detractor was an overweight holding in fast food operator Collins Foods. The stock fell over the quarter when the company announced a fall in half year profit on the back of the cost of expanding its KFC restaurant presence.

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. Smaller companies fared better than their larger counterparts to return 13.7% during the period, as measured by the S&P/ASX Small Ordinaries Accumulation Index. In a period when all smaller companies sectors with the exception of utilities posted positive returns, the best performers were energy, materials and information technology, whilst utilities, consumer discretionary and real estate underperformed. 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 regulatory scrutiny, 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.

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)

What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believe to accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.