

Specialist Geared Australian Share

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange. The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is 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 3 year basis.

Investment Option Performance

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

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0850AU
Flexible Lifetime Investment (Series 2)	AMP1416AU
AMP Flexible Super – Super	AMP1481AU
Signature Super	AMP0823AU
Signature Super Allocated Pension	AMP1154AU
Flexible Lifetime – Term Pension	AMP0924AU
Custom Super	AMP0820AU
Flexible Lifetime – Allocated Pension	AMP0819AU
AMP Flexible Lifetime Super	AMP1352AU

Investment Option Overview

Investment category Specialist 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	6.85
BHP Billiton Ltd	5.98
Westpac Banking Corp	5.30
National Australia Bank Ltd	5.27
WOOLWORTHS GROUP LTD	3.23
Australia & New Zealand Banking Group Ltd	2.84
Rio Tinto Ltd	2.78
MACQUARIE GROUP LTD	2.62
CSL Ltd	2.29
Aurizon Holdings Ltd	2.12

Industry Exposure	%
Financials	30.28
Materials	15.22
Industrials	10.80
Cash	10.73
Consumer Staples	6.81
Real Estate	6.41
Health Care	4.79
Information Technology	4.55
Energy	4.43
Consumer Discretionary	4.02
Telecommunication Services	1.26
Utilities	0.70

Portfolio Summary

- > Australian share markets performed strongly in the December quarter, with all sectors posting positive returns.
- > The Fund outperformed its benchmark, with gearing contributing significantly to returns.
- > 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 posted a positive absolute return and outperformed its benchmark over the December quarter. All underlying managers recorded positive absolute returns, with DNR Capital also outperforming (on an ungeared basis) relative to the benchmark. Conversely, the Vinva Investment Management and AMP Capital Enhanced Index Share Fund underperformed the benchmark during the quarter. Manager performance was significantly enhanced by the positive impact of gearing.

The contribution from sector allocation over the period was slightly positive, primarily reflecting the benefit of an underweight allocation to financials and being overweight information technology. Being underweight to materials and energy were the main detractors, Cash held in the Fund also detracted from relative performance as the market rose strongly during the period.

The overall effect of stock selection was negative, primarily reflecting detractors within the real estate, information technology and industrials sectors. The main contributors came from the health care and consumer staples sectors.

At the individual stock level, the largest contributor to performance was an underweight position in ANZ Bank (-0.3%), while overweight positions in James Hardie Industries (+28.4%) and Healthscope (+25.8%) also enhanced returns. The main detractors were overweight positions in Lendlease Group (-8.8%) and ALS (-9.6%) and an underweight position in Westfield Corp (+21.1%).

Market commentary

Australian shares had a stellar December quarter, with the S&P/ASX 200 Index rising by 7.6% as measured by the S&P/ASX200 Accumulation Index. 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.

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