

Specialist Hedged International 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, higher than the return from the MSCI World (ex-Australia) Accumulation Index (hedged back to Australian dollars) on a rolling 3 year basis, through investing in a diversified portfolio of international shares. The portfolio will normally invest up to 10% in cash. However, in certain market conditions the portfolio may hold higher levels of cash. This option aims to be fully hedged to Australian dollars.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0865AU
AMP Flexible Super - Retirement account	AMP1354AU
AMP Flexible Super - Super account	AMP1483AU
CUSTOM SUPER	AMP0865AU
Flexible Lifetime - Allocated Pension	AMP0876AU
Flexible Lifetime - Term Pension	AMP0926AU
Flexible Lifetime Investment	AMP1006AU
Flexible Lifetime Investment (Series 2)	AMP1418AU
METCASH SUPERANNUATION PLAN	AMP0865AU
Signature Super	AMP0953AU
Signature Super Allocated Pension	AMP1156AU

Investment Option Overview

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

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

Top 10 International Shares Exposure	%
Alphabet Inc	2.56
Facebook Inc	2.28
APPLE INC	1.56
Lowe's Cos Inc	1.44
Visa Inc	1.44
Mastercard Inc	1.28
WELLS FARGO & COMPANY	1.23
UnitedHealth Group Inc	1.23
Microsoft Corp	1.20
XPO Logistics Inc	1.13

Regional Exposure	%
North America	58.42
Europe ex UK	10.60
Japan	9.71
Cash	8.52
Asia ex Japan	6.74
United Kingdom	5.75
Others	1.71
Australasia	-1.44

Industry Exposure	%
Information Technology	24.90
Consumer Discretionary	14.74
Financials	13.76
Health Care	10.97
Industrials	9.31
Consumer Staples	7.57
Cash	6.66
Materials	4.34
Energy	3.46
Real Estate	2.18
Telecommunication Services	0.96
Utilities	0.76
Others	0.34

Industry Exposure	%
Other	0.04

Portfolio Summary

- > International equities performed well during the December quarter, with Australia and emerging markets particularly strong
- > The Fund outperformed the benchmark during the period before fees, with four of the five underlying managers beating the benchmark.
- > Share markets are expected to trend higher over the medium term as the passing of US tax reform and continued low interest rates are expected to support global economic activity and corporate earnings

Investment Option Commentary

The Fund posted a positive return during the December quarter and outperformed the benchmark, before fees. All five underlying managers produced positive returns, with Orbis recording a strong outperformance compared to the benchmark. In addition, Arrowstreet, Magellan and Schroders contributed to returns. Conversely American Century detracted from performance during the period. Pleasingly, the Fund remains ahead of the benchmark (before fees) over longer time periods, including 1, 3 and 5 years, and since inception, on an annualised basis.

From a country allocation perspective, the overall contribution was positive. The Fund's exposure to developed markets was broadly neutral as underweight positions in Sweden, Spain and Germany contributed to relative performance when these markets underperformed. The Fund further benefitted from its allocation to emerging markets, especially Turkey, Russia and South Africa, when these markets outperformed developed markets. Cash detracted from relative performance as equity markets rose during the period.

Sector selection also contributed to relative performance. The overweight allocation to the information technology sector was the primary contributor, which following a month of underperformance, resumed its longer-term trend of significant outperformance. The Fund's underweight position in utilities also contributed to relative performance when it underperformed upon market expectations of rises in longer-term bond yields.

Stock selection in the Fund was the most significant contributor to relative returns during the month. The single largest contributor at the individual stock level was the Fund's overweight position in US air freight and logistics company XPO Logistics (+36%), which rallied after releasing strong results for the September quarter with revenue, net income and cash flow hitting new highs on the back of increased demand for last-mile deliveries and growth in its e-commerce and intermodal businesses. Other contributors to performance included being underweight the US industrial conglomerate General Electric Company (-27%) and overweight the US healthcare provider Anthem (+19%).

The largest single detractor from performance was the overweight position in US biotechnology company Celgene Corporation (-28%) which outperformed the market upon the release of third quarter operating and financial results. This announced that net product sales had risen by 11% compared to the same period in 2016. Other detractors included an overweight position in US media company Charter Communications (-7%) and an underweight position in US retailer Wal-Mart Stores (+27%).

The Fund's hedged exposure to the Australian dollar had little impact on total returns, as the Australian dollar was little changed against most major currencies during the period.

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.

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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