Yarra Australian Equities

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1341AU
AMP Flexible Super – Choice (Super)	AMP1470AU
CustomSuper	AMP0766AU
Flexible Lifetime – Allocated Pension	AMP0625AU
Flexible Lifetime – Super	AMP0766AU
Flexible Lifetime – Term Pension	AMP0918AU
SignatureSuper	AMP0791AU
SignatureSuper Allocated Pension	AMP1145AU
Flexible Lifetime Investment	AMP0833AU
Flexible Lifetime Investment (Series 2)	AMP1406AU
MultiFund Flexible Income Plan	AMP0763AU

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.

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Overview

Aim & Strategy: To achieve medium-to-long term capital growth through exposure to companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling three-year periods.

Investment category: Australian shares – core

Suggested Investment Timeframe: 5 – 7 years

Standard Risk Measure: 6/ High

Asset Allocation	Benchmark (%)	Range (%)	Actual (%)
Australian shares	100	80-100	98.39
Cash	0	0-20	1.61

Holdings

Industry Exposure	%
Consumer Discretionary	9.97
Consumer Staples	1.87
Energy	6.87
Financials	34.17
Health Care	5.58
Industrials	13.44
Information Technology	6.94
Materials	15.31
Real Estate	--
Telecommunication Services	4.23
Utilities	--
Cash	1.61

Regional Exposure	%
Australia	100

Top Ten Securities	%
Commonwealth Bank of Australia	11.90
Westpac Banking Corporation	9.65
Australia and New Zealand Banking Group	8.24
Origin Energy Limited	4.37
Transurban Group Ltd.	3.83
Seek Limited	3.38
Macquarie Atlas Roads Group	3.26
Macquarie Group Limited	3.10
James Hardie Industries	2.98
Star Entertainment Group Limited	2.94

Market Commentary

Australian equities delivered their highest quarterly returns in almost three years in the three months to 31 December 2017, as stronger commodity prices, lower bond yields and the buoyant US equity market provided support.

The S&P/ASX 200 Accumulation Index lifted 7.6% in the quarter, taking its total return to 11.8% for CY2017. The index was ahead of both the MSCI World Index and the US market. The S&P 500 returned 6.6% for the quarter – bringing its total gain to 21.8% this calendar year.

Internationally, economic conditions continued to improve in Europe despite political tension in Spain, the US quarterly reporting season was better than expected and President Trump signed US tax reform initiatives into law.

While all sectors generated positive returns in the quarter, Metals & Mining (+14.7%) was the top contributor. BHP Billiton (BHP, +14.7%) and Rio Tinto (RIO, +13.9%) rose sharply as the iron ore price moved from $US62.10 to $US72.40 per tonne.

The rise in the oil price – up 17.0% to $US60 per barrel – supported an 18.0% increase in the Energy sector. Standouts were LNG producers Origin Energy (ORG, +25.9%) and Santos (STO, +35.6%) as the LNG spot price doubled off its mid-2017 lows.

However, Banking (+1.8%) underperformed as the Federal government announced a Royal Commission into financial services, with its remit including investigation into any conduct that falls below community standards and expectations. National Australia Bank (NAB, -3.1%) – the worst performer – also delivered a disappointing FY17 result during the quarter.

Investment Option Commentary

Telecommunication Services (+6.3%) was the largest contributor due to overweights TPG Telecom (TPM, +35.5%) and Vocus Group (VOC, +26.8%), followed by underweight Telstra (TLS, +4.0%).

In Energy (+18.0%), the second largest contributor, high conviction position Origin Energy (ORG, +25.9%) and overweight Santos (STO, +35.6%) added to excess return with both stocks benefiting from the higher oil and LNG prices.

Elsewhere, the overweight to Industrials (+5.2%) added value despite the sector's underperformance. Overweights Macquarie Atlas Roads (MQA, +15.8%) and Seek (SEK, +14.4%) were largely responsible.

Only Consumer Staples (+10.1%), where the portfolio is underweight, detracted from performance. Detractors included underweights Treasury Wine Estates (TWE, +16.6%) and A2Milk (A2M, +25.8%), as well as overweight GrainCorp (GNC, +2.4%).

Outlook

Consensus estimates expect Industrials to support mid-single digit market earnings growth in FY18, with Financials at mid-single digit levels and Resources flat. Banks and Industrials could surprise on the upside.

Australian equities are priced above their long-term averages based on forward earnings estimates, though valuations remain attractive relative to alternatives such as fixed income. The S&P/ASX 200 Index yields 4.3% on a 12-month forward basis versus 2.6% from the Australian 10-year government bond yield.

At a global level, excitement about political change is driving valuations to elevated levels. However, the fund manager believes economic and geopolitical risks are real (e.g. surging interest rates, and China's real growth).

The Fund sees significant value in certain sectors but believe others to be overvalued based on earnings and cash flow expectations. The Fund remains overweight the Information Technology, Consumer Discretionary and Banking sectors, but are underweight Real Estate, Metals & Mining and Consumer Staples.

What you need to know

Additional Disclaimers