BlackRock Australian Equity Absolute Return

Quarterly Investment Option Update

30-June-2018

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1873AU
AMP Flexible Super – Choice (Super)	AMP1869AU
Flexible Lifetime – Allocated Pension	AMP1857AU
Flexible Lifetime – Super	AMP1853AU
SignatureSuper	AMP1861AU
SignatureSuper – Allocated Pension	AMP1865AU

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 deliver returns that is 8% per annum above the RBA Cash Rate Target, before fees over rolling 3 year periods.

The Fund targets a zero net market exposure and aims to deliver absolute returns irrespective of the returns of the broader market. It invests in an underlying strategy called the BlackRock Australian Equity Market Neutral Fund which provides an exposure to long and short Australian equity positions and is based on BlackRock's quantitative process that uses a range of signals to look for mispriced stocks. This underlying investment may borrow securities from a counterparty that is a securities lender.

Investment category: Alternative

Suggested Investment Timeframe: 5 years

Relative Risk Rating: Medium

Asset Allocation	Actual (%)	Range (%)
Australian Shares	100	0-100
Cash	0	0-100

Holdings

Industry Exposure	Long %	Short %
Consumer Discretionary	17.2%	-13.6%
Consumer Staples	3.1%	-4.8%
Energy	5.0%	-3.3%
Financials	18.9%	-23.1%
Health Care	6.8%	-3.5%
Industrials	11.1%	-14.5%
Information Technology	6.3%	-5.0%
Materials	19.6%	-21.5%
Real Estate	3.4%	-2.7%
Telecommunication Services	1.9%	-3.6%
Utilities	3.0%	-0.7%

Regional Exposure	%
Australia	100

Top Ten Securities	%
BHP BILLITON LTD	3.1%
ARISTOCRAT LEISURE LTD	3.1%
MAGELLAN FINANCIAL GROUP LTD	3.1%
CSL LTD	3.1%
MEDIBANK PRIVATE LTD	3.0%
PENDAL GROUP LTD	3.0%
ILUKA RESOURCES LTD	3.0%
DULUXGROUP LTD	3.0%
QANTAS AIRWAYS LTD	2.9%
MCMILLAN SHAKESPEARE LTD	2.9%

Market Commentary

The S&P/ASX200 Accumulation Index recorded a positive second quarter (+8.5%) as each of the last three months resulted in the index finishing higher. Stronger performance from mining related commodities and oil helped local resource companies, even though concerns around global free trade continued. Political tensions in Europe, global relations with regards to the US, and the speed at which the US Federal Reserve intended to raise rates added to the uncertainty. Locally the quarter saw the release of a Federal Budget focussed on tax cuts, and a steady stream of news from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Economic data for Australia started the quarter with a weak March quarter inflation print (+0.4%) giving an annual inflation rate of +1.9%. GDP numbers were better than expected, rising +1.0% over the first quarter, or +3.1% for the year, helped by higher mining exports and strong government expenditure. Unemployment decreased to 5.4% driven by a decrease in the number of people looking for jobs. Relatively unchanged underemployment and underutilisation continuing to be a headwind for meaningful wages growth. Previous quarter wage growth registered only +0.5%, with the yearly gain just +2.1%. The RBA remained consistent in its view that inflation would continue to remain low for some time, as the central bank maintained the cash rate at +1.50%. The Australian dollar finished the quarter lower at US73.9c.

Resource stocks did well over the quarter as commodity prices improved. Rising oil prices helped the Energy sector (+19.7%) finish as the best performing sector over the quarter. The Materials sector was also one of the better performers, in large part due to a strong mining sub-sector. Overall though, the Health Care sector (+16.5%) was the second best performing sector, with pharmaceutical, biotechnology and medical device companies reporting well the past three months. The worst performing sector was the Telecommunications sector (-13.7%) led lower by Telstra after it flagged challenging trading conditions would persist. The Financials sector (+4.1%) managed a gain but was negatively impacted by publicity from the Royal Commission.

The second quarter resulted in poorer performance from the strategy, though much of it was due to specific stocks on the short side that were involved in takeover activity. Year to date and over the last 12 months the strategy maintained its positive active performance. The Consumer Discretionary sector was the best performing sector for the quarter, due to favourable positions across several companies. The boost in commodity prices helped long positions in the resource sectors including Energy and Materials (Mining), the latter also seeing gains from short construction materials names. Detraction came through poor positioning in the Industrials sector, long positions in capital market firms within Financials and shorts in Information Technology companies that gained. Earnings Quality was the best insight group, as the trending insights (Earnings Direction and Market) also added; Relative Valuation being the only insight group that detracted.

Investment Option Commentary

The stock positions in the portfolio are based on combinations of quantitaive signals, which exhibited the following performance characteristics over the quarter:

- Relative Valuation signals were slightly positive,
- Market signals were the most positive group,
- Earnings Direction signals were positive,
- Earnings Quality signals were positive,
- Timing signals were a small positive.
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Stock Selection

On a market adjusted basis, amongst the top contributors for the month was a short position in Automotive Holdings Group (AHG) and a long position in Beach Energy (BPT). Amongst the largest detractors was a long position in Telstra (TLS) and a short position in Healthscope (HSO).

Top Contributors

AHG – The short position in motoring and logistics group Automotive Holdings Group was taken as most insight groups were negative, notably Earnings Quality and Market insights. The company noted that automotive retail conditions were challenging and the extended due diligence around the sale of their refrigerated logistics group was affecting trading, before later adding that delays were also being caused by the Foreign Investment Review Board

BPT – The long position in oil company Beach Energy came about as Market, Earnings Quality and Earnings Direction insights were positive. The company was helped by a rising oil price, and also announced good production numbers and news it had purchased additional interests in a couple of gas projects.

Top Detractors

TLS – The long position in telecommunications major Telstra was through favourable fundamentals, Earnings Quality and Relative Valuation, as well as Timing insights, even though trending insights were unfavourable. The company updated the market that tougher market conditions would persist, and announced a strategic plan that would create a new infrastructure entity, simplify its business and products, and reduce costs in the business.

HSO – The short position in hospital provider Healthscope was a result of every insight group being negative, led by Timing, Earnings Quality, and Earnings Direction. During the quarter the company received two unsolicited takeover bids, before deciding to reject both and carry out a strategic review.

Outlook

Market sentiment has shifted markedly. 2017 was a year of upside growth surprises and muted inflation – and unusually low volatility. That set the stage for outsized risk-adjusted returns across markets. Fast forward to 2018: sentiment on many of these key market drivers has shifted. The growth picture is still bright overall. Inflation risks look more two-way, and financial conditions are tightening as US rates rise. Monetary policy is shifting, with the Fed pushing on with normalisation and the European Central Bank (ECB) set to wind down its asset purchases by year-end. The Bank of Japan looks poised to keep its ultra-easy policy on hold as it awaits a sustainable increase in inflation. The big change in 2018: a rise in macro uncertainty, with potential trade wars and US overheating risks

Themes

BalckRock's base case sees strong US growth extending positive spillover effects to the rest of the world, sustaining the global economic expansion. Yet the range of possibilities for the economic outlook has widened. On the downside: trade war and overheating risks. On the upside: US stimulus fuelled surprises. This greater uncertainty – along with rising interest rates – has contributed to tightening financial conditions and argues for building greater resilience into portfolios. A rising US dollar squeezes dollar-funded entities including emerging markets (EMs) with large external debt loads.