BlackRock Global Allocation

Quarterly Investment Option Update

30-June-2018

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1785AU
AMP Flexible Super – Choice (Super)	AMP1791AU
CustomSuper	AMP1815AU
Flexible Lifetime – Super	AMP1815AU
SignatureSuper	AMP1803AU
SignatureSuper – Allocated Pension	AMP1797AU

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 maximise total investment returns while managing risk by actively investing in global equities, debt and short-term securities. The investment manager actively allocates the portfolio between its investible asset classes and various types of securities and markets in response to changing market conditions and economic trends. The investment process combines a top-down approach with bottom-up security selection and typically holds over 400 securities in the portfolio. There is generally no limit on the proportion of assets the portfolio can invest in a particular type of security and the portfolio has no geographic limits on where its investments may be located, although it will typically invest a majority of its assets in the securities of companies and governments located in North and South America, Europe and Asia. In selecting equity investments, the investment manager seeks to invest in securities which are believed to be undervalued and may also invest in equity securities of large, mid and small capitalisations as well as emerging growth companies. Typically no individual equity holding will represent more than approximately 1% of the portfolio. However, the number of securities held and the weight of individual securities can and will change based on the portfolio's objective. The portfolio may buy fixed income securities of varying maturities and may be invested in non-investment grade securities and convertible securities, although the portfolio may not hold more than one third of its assets in non-investment grade fixed income securities. The performance benchmark is a weighted average of the Australian dollar hedged returns provided by market indices in underlying asset classes. Equity market indices include the S&P 500 Composite (total return) and the Financial Times/S&P Actuaries World index ex-US (total return). Fixed interest and cash indices include the Merrill Lynch Government Index GA05 (5 year Treasury Bond) and the Citigroup Non-USD World Government Debt Index.The portfolio may short sell securities and use financial derivatives such as futures, options and forward contracts to protect against risks or enhance returns. Currency is actively managed around a fully-hedged Australian dollar benchmark.

Investment category: Multi-sector (Specialist)

Suggested Investment Timeframe: 5+ years

Relative Risk Rating: Medium to high

Asset Allocation	Benchmark (%)	Actual (%)
Equities	60	61.62%
Fixed Income	40	28.72%
Commodity-Related	0	3.02%
Cash Equivalents	0	6.64%

Holdings

Industry Exposure	%
Consumer Discretionary	8.28%
Consumer Staples	3.57%
Energy	5.59%
Financials	8.33%
Healthcare	9.02%
Industrials	4.30%
Information Technology	13.10%
Materials	3.35%
Real Estate	1.38%
Telecom Services	2.04%
Utilities	1.68%
Index-Related	0.98%

Regional Exposure	%
North America	54.85%
Europe	15.61%
Asia	16.66%
Latin America	2.52%
Africa/Mid East	0.51%
Commodity-Related	3.02%
Cash Equivalents	6.83%

Top Ten Securities	%
APPLE INC	2.24
MICROSOFT CORP	1.88
AMAZON COM INC	1.22
COMCAST A CORP	1.12
ALPHABET INC CLASS C	0.99
FACEBOOK CLASS A INC	0.96
BANK OF AMERICA CORP	0.90
KONINKLIJKE PHILIPS NV	0.87
DOWDUPONT INC	0.85
DANONE SA	0.74

Market Commentary

Ultra-easy monetary policies nudged investors out of ‘risk-free’ assets – and into riskier ones. Investors’ move out the risk spectrum, in some cases applying leverage to meet return goals, inflated valuations. The process may be shifting into reverse. Higher returns on short-term bonds and other cash like investments have attracted flows and provided a lower-risk alternative to equities and other risk assets. Short-term US credit yields top 3% for the first time in years.

The competition for capital from rising US short-term rates is a sea change for US investors − but not all markets have been affected. Consider euro based investors who face 3% hedging costs to buy US assets due to interest rate differentials and other factors. This makes eurozone credit more attractive to them.

Capex is picking up globally – with tech leading the charge. Years of policy uncertainty and low confidence kept company purse strings tight. Their re-opening in an age of technology and evolving consumer behaviours has much of the spending directed at intellectual property and innovation – a boon for tech firms. The spending uptick could spill into 2019 as companies adjust to new US tax laws – provided trade tensions do not pinch confidence. We see some notes of caution rearing.

The story is not US-only. High capacity utilisation rates and ageing assets in Europe point to room for spending. In China, investment in strategic initiatives is set to accelerate even as it declines in heavy industries. History shows big spending can eat into stock returns. Yet spending discipline among many companies gives us confidence that profit margins and earnings could be well insulated.

Where do equity investors look for resilience today? High-yielding ‘bond proxy’ stocks earned their stripes as defensive picks for much of the past decade as bond yields were slow to revert back to pre-crisis levels. But upward rate and inflation momentum challenges the prevailing thinking, as we discuss in Building the right defence in equities. A good defence today requires stocks with the potential to weather volatility and outrun inflation. To us, this means a focus on quality and dividend growth. ‘Quality’ companies, by our definition, are able to generate and grow free cash flow while maintaining healthy balance sheets. Companies able – and willing – to increase dividends appear better poised to withstand volatility. We see a tougher go for highly bid ‘stable’ dividend stocks as higher US rates make ‘risk-free’ bonds bigger competition.

Investment Option Commentary

BalckRock remain cautiously optimistic on risk assets in general given the continuation of global growth, relatively low inflation and reasonably benign monetary conditions however believe we will see more muted returns. From an asset class perspective, BlackRock continue to favor equities over fixed income with a preference for equities in Japan and select emerging markets, given more attractive relative valuations and other market-specific factors. In the U.S., they favor quality – stocks that feature some combination of high profitability, low debt-to-equity, and earnings consistency.

Despite economic growth, BlackRock are mindful that a continued rise in interest rates or a stronger dollar, coupled with elevated geopolitical risk could lead to an increase in market volatility. U.S. Treasuries serve as a source of potential “ballast” and help to offset some of the equity risk in the portfolio. While U.S. Treasury yields are low by historical standards, they remain more attractive compared to most other developed market government bonds. In addition, the team believe it is increasingly important to diversify equity risks more broadly, and hold exposure to cash, gold, U.S. Treasuries to help manage volatility.

BlackRock believe that the continued U.S. fiscal stimulus into an already solid economy further extends the support of U.S stocks. One area we added to more recently was U.S. small cap stocks as they expect this asset class to continue to benefit from improving near-term U.S. growth, as well as continuing strong earnings growth and a more business friendly US regulatory environment.

BlackRock added to select names in the food, beverages and tobacco industry given attractive valuations. While the fund remains underweight consumer staples given the sector's stretched valuations, sensitivity to changes in interest rates and the diminishing influence of brand awareness on millennial consumers, more recently have reduced this underweight by adding to companies that they believe have been oversold in the current environment.

Within technology, BlackRock added to software and service companies that they feel have sustainable growth and profitability, notably ones that are positioned to benefit from the broader shift towards public cloud adoption. Technology remains one of the fund's largest overweight despite the sector's strength in recent years. As Russ Koesterich notes in a recent blog, the sector's modest premium to the broader market in the U.S. is justified when you consider growth prospects.

While the team continue to expect inflation to remain moderate, they would note that expectations vary by region, with the prospect for a pickup more prevalent in the U.S. The fund slightly reduced portfolio duration to ~ 1.3 years given the possibility of rates in the U.S. to be driven higher by an inflation impulse in the near-term. This is down from a recent high of 1.8 years in February 2018.

Outside of the U.S., the fund reduced exposure to emerging market government bonds, notably in Poland and Brazil, given the expectation for a stronger U.S. dollar in the near-term. The fund continues to maintain exposure to government bonds in Mexico (pesodenominated) and Argentina (USD-denominated) given the view that they should outperform the Emerging Market debt asset class over the next 6 – 12 months.

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

BlackRock'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 stimulusfuelled 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.