

Future Directions Emerging Markets

Quarterly Investment Option Update

30 June 2018

Aim and Strategy

To provide high returns over the long term, whilst accepting a higher level of volatility, through a diversified portfolio of international shares, focussing on emerging markets. The objective is to provide a total return, after costs and before tax, higher than the return from the MSCI Emerging Markets Index on a rolling 3 to 5 year basis.

Investment Option Performance

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

Availability

| Product name | APIR |
|---|-----------|
| AMP Flexible Super – Retirement | AMP1350AU |
| AMP Flexible Super – Super | AMP1479AU |
| CustomSuper | AMP1103AU |
| Flexible Lifetime – Allocated Pension | AMP1105AU |
| Flexible Lifetime – Term Pension | AMP1109AU |
| Flexible Lifetime – Super | AMP1103AU |
| Flexible Lifetime Investment | AMP1117AU |
| Flexible Lifetime Investment (Series 2) | AMP1414AU |
| SignatureSuper | AMP1114AU |
| SignatureSuper – Allocated Pension | AMP1105AU |

Investment Option Overview

| | |
|---------------------------------------|---------------------|
| Investment category | Specialist Equities |
| Suggested investment timeframe | 7+ years |
| Relative risk rating | High |
| Investment style | Multi-Manager |

| Asset Allocation | Benchmark | Range (%) |
|----------------------|-----------|-----------|
| International shares | 100 | 90-100 |
| Cash | 0 | 0-10 |

| Top Ten International Shares Exposure | % |
|---------------------------------------|------|
| Tencent Holdings Ltd | 5.57 |
| Alibaba Group Holding Ltd | 4.09 |
| TSMC | 4.09 |
| Samsung Electronics Co Ltd | 3.88 |
| PING AN | 1.56 |
| China Construction Bank Corp | 1.51 |
| Infosys Ltd | 1.36 |
| Vale SA | 1.35 |
| CNOOC Ltd | 1.28 |
| Baidu Inc | 1.24 |

| Industry Exposure | % |
|----------------------------|-------|
| Information Technology | 28.39 |
| Financials | 22.02 |
| Materials | 10.08 |
| Energy | 7.85 |
| Consumer Discretionary | 6.74 |
| Consumer Staples | 5.35 |
| Industrials | 4.66 |
| Real Estate | 3.15 |
| Utilities | 3.01 |
| Telecommunication Services | 2.94 |
| Health Care | 2.92 |
| Cash | 2.90 |
| Others | 0.00 |

| Regional Exposure | % |
|----------------------|-------|
| Asia | 68.01 |
| Latin America | 10.99 |
| Europe | 7.80 |
| Middle East & Africa | 6.04 |
| Others | 4.26 |
| Cash | 2.90 |

Portfolio Summary

- > The Fund posted a negative return in the June quarter, however outperformed the benchmark (before fees)
- > Continuing threats of a trade war impacted all emerging markets
- > A persistently strong dollar, and constrained oil supply dynamics, are likely to keep emerging market volatility high

Investment Option Commentary

The Fund posted a negative return in the June quarter; however it outperformed the benchmark (before fees). Investec and Lazard outperformed the benchmark, whilst Schroders underperformed.

Outperformance was driven equally by both asset allocation and stock selection. From an asset allocation perspective the three largest contributors to outperformance were the materials, financials and telecommunication services sectors whilst the three largest detractors were from consumer staples, consumer discretionary and information technology sectors.

From a stock selection perspective the three largest contributors to outperformance were from the information technology, energy and materials sectors whilst the three largest detractors were from the consumer discretionary, financials and industrials sectors.

At the security level, the largest single contributor to Fund performance was the Fund's underweight position in Brazilian bank Itau Unibanco Holding (-29%). As Brazil's largest private lender, investors were concerned following the company's announcement during the period that it did not expect corporate credit demand to grow during the remainder of 2018. Other significant contributors included the Fund's overweight holding in Taiwanese electronic component maker Yageo Corp (+113%) and Chinese pharmaceutical giant CSPC Pharma (+19%).

The largest single stock detractor was an underweight holding in South African conglomerate Naspers (+8%). During the period the company announced improving results for its legacy South African businesses, which boosted its share price by a greater degree than the Fund's holding in Tencent, which makes up most of Naspers's value. Other significant detractors included the Fund's overweight positions in Taiwan Semiconductor Manufacturing (-11%) and Thai cosmetics retailer Beauty Community (-43%).

Market commentary

Emerging markets came under continuing pressure during the quarter, with the MSCI Emerging Markets Accumulation Index closing the month down by 3.5%. Both equities and currencies were impacted amid concerns that a strong US dollar will put pressure on emerging market funding requirements, with emerging market bonds seeing some significant outflows. Asia was particularly weak over the period, especially China and Korea. China's weak performance was predominantly driven by the ongoing trade disputes with the US. However, India, which is less affected by the ongoing trade disputes, fared better. The Europe, Middle East and Africa (EMEA) region fared a little better, with Russia starting to benefit from constrained oil supply dynamics. Latin America had a more mixed quarter. Mexico was relatively strong in the lead up to the presidential election. However, Brazil exhibited weakness as economic activity became more subdued. In addition, a haulage drivers' strike impeded transportation for a period, which affected market risk perception amid the likelihood of further action that could impact economic activity. If the US dollar remains strong, this could also cause some additional stress for energy-dependent emerging markets which will have to contend with both a higher dollar and a higher oil price. Emerging market currency stress saw particularly significant depreciation in the Turkish lira and Argentinian peso; with the Argentinian Government attempting to defend the peso by raising interest rates to 40%, prior to receiving a loan from the IMF. The deal has initiated national protests as many Argentinians blame the protracted austerity following the country's 2001-02 economic crisis on IMF interventionist measures.

Outlook

Although economic fundamentals remain broadly positive for global stocks at this juncture, the risk of a US initiated trade war has increased, resulting in increased volatility and uncertainty. This has the potential to have an exacerbated effect on emerging markets over the next quarter if investors become concerned about the effect on supply chains, increasing funding costs for emerging markets if the US dollar remains strong, and the flow-on effect of a persistently high oil price if supply dynamics remain constrained.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)

What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.