AMP Alternative Index*

Quarterly Investment Option Update

30-June-2018

**This option is named "Super Easy Alternative" in the AMP Flexible Super – Super and AMP Flexible Super – Retirement products.*

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1846AU
AMP Flexible Super – Choice (Super)	AMP1842AU
CustomSuper	AMP1826AU
Flexible Lifetime – Allocated Pension	AMP1830AU
Flexible Lifetime – Super	AMP1826AU
SignatureSuper	AMP1834AU
SignatureSuper – Allocated Pension	AMP1838AU

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: This investment option provides investment exposure to AFS Alternatives Fund I (the "Fund"), which is managed by K2/D&S Management Co., L.L.C. (together with its affiliate, K2 Advisors, L.L.C., "K2" or "K2 Advisors"). The Fund seeks to provide returns similar to the K2 Rotational Hedge Fund Index (the "Index") by investing in a variety of instruments linked to indices in multiple asset classes. Quantitative models are used to analyse the recent performance of the Index and determine the diversified classes such as: US and International Equities, US and International Treasuries, Currencies and Commodities. The Fund does not make investments in underlying hedge funds. The Index is based on a subset of managers approved for investment by K2 Advisors. Two portfolios are constructed monthly, the Risk On Portfolio and the Risk Off Portfolio. Risk On is comprised of managers from the Equity Hedge, Event Driven, and Relative Value Strategies. Risk Off is comprised of Macro managers. The Risk Off Portfolio seeks to limit losses during periods of muted market expectations. The Index switches between the Risk On and Risk Off portfolios in K2's discretion, based on proprietary signals.

Both the Risk On and Risk Off Portfolios are modelled each month using updated data from the managers and the underlying investments. On a weekly basis, the market signals are updated to aid K2 in determining which portfolio to implement. The available investment instruments may be reviewed by K2 from time to time to assess whether the addition or removal of an instrument would be beneficial.

Investment category: Alternatives

Suggested Investment Timeframe: 3-4 years

Relative Risk Rating: Medium

Investment Style: Multi-asset class portfolio providing hedge fund-like returns.

Underlying Investment	Net Exposure
US Large Cap Equities	21%
US Small Cap Equities	5%
European Equities	-3%
Emerging Market Equities	6%
US 10 Year Treasuries	55%
US 2 Year Treasuries	-353%
US Dollar	8%

Market Commentary

Global equity markets collectively closed June 2018 with a slight retreat in US-dollar terms. Intensifying trade tensions and their potential to slow global economic growth weighed on sentiment. Concerns also arose that the synchronized global growth story might be coming to an end, as the US economy looked resilient, while pockets of Europe, Asia and Latin America faced various challenges. Developed-market stocks, as measured by MSCI indexes, slipped as a group but overall fared better than their emerging- and frontier-market peers.

In developed markets, the US economy appears to have bounced back from modest first-quarter gross domestic product (GDP) growth as spending by consumers, businesses and the government has gained momentum. Amid this backdrop, the US Federal Reserve lifted its 2018 GDP guidance in June when it raised interest rates for the second time this year. The European Central Bank announced it intends to end its quantitative easing program by year-end and expects to keep interest rates on hold at least through the summer of 2019. Elsewhere in Europe, the United Kingdom's unemployment rate for the three months through April remained at a 42-year low. In Asia, Japan's first-quarter 2018 GDP growth was revised down to a quarterly drop, shrinking for the first time in two years.

Many observers noted a general aversion to emerging markets amid a strengthening US dollar. On a country level, China's economic data between April and May was somewhat mixed, with year-on-year growth in producer prices accelerating, while consumer prices, industrial production, fixed asset investment and retail sales each grew at a slower pace. India's central bank raised its policy interest rate in June for the first time after several years of decreases, stating this was consistent with a neutral policy stance in relation to its target for medium-term inflation. South Korea's annual inflation growth in June was slightly below consensus expectations, while contracting month-on-month. Brazil's unemployment rate edged down for the March–May quarter. Mexico's annual inflation continued easing in May to the lowest reading since December 2016.

Investment Option Commentary

The investment option fell in the second quarter of 2018. After beginning the second quarter positioned Risk On, the investment option switched to Risk Off in the second week of April. The investment option held its Risk Off positioning until May 21st when it switched back to Risk On mode where it remained for the rest of the second quarter. The fund's conservative positioning throughout the majority of May was the largest driver of underperformance versus benchmarks as US equity markets posted very strong returns. Despite shifting back and forth between risk modes throughout the quarter, the investment option held relatively consistent directional exposures. The largest detractors for the quarter were a long position in Emerging Market Equity and short exposure to US 2-year Treasury. US Small Cap Equity was a further drag on performance with a long position in June having a net negative impact on overall performance. The US Dollar was the strongest performing asset as long exposure contributed gains in all three months of the second quarter. Further helping to offset some of the losses were long exposures to US Large Cap Equity and US 10-year Treasury. After oscillating back and forth between gains and losses in April and May, an eventual short position in June helped tilt the contribution from European Equity to a slight positive for the quarter.

Despite beginning the third quarter positioned Risk On, the fund quickly switched to Risk Off in early July due to a rapid deterioration in the readings from our MacroPak Equity Barometer. In aggregate, the fund increased net equity exposure but significantly reduced total gross exposure in comparison to the second quarter of 2018. The investment option remains long US Large Cap Equity, US Small Cap Equity, European Equity and Emerging Market Equity. In treasuries, the investment option continues to be positioned for a flatter yield curve via long US 10-year Treasury and short US 2-year Treasury positions. The investment option continues to hold a long position in the US Dollar, near its average based on historical expectations for the strategy. With equity volatility remaining elevated throughout the beginning of 2018, the reduction in gross exposure should aid the investment option in generating favourable risk-adjusted performance.

Outlook

While earnings expectations in the US have accelerated, they have turned downward in Europe and APAC. This has led to a growing disparity between the US and the rest of the world in both economic and equity market strength. This gap is pulling capital into the US and driving the US dollar and equities higher. The flows are reinforced by populist politics in Europe and emerging markets. The manager expect these dynamics, combined with increasing threats of trade wars, to lead to greater dispersion and volatility in global equity returns, creating a favorable backdrop for hedge fund investing.

As the US economy continues to grow above trend, the manager believe the probability of higher-than-expected rate hikes by the Federal Reserve will continue to increase. Rising rates have a non-uniform impact on the equity prices of various companies, creating a spread that managers may exploit. Moreover, after receiving no rebate on short sales for nearly a decade due to low rates, managers are starting to earn material rebates on their short portfolios, rebates that will increase if rates continue to increase. In addition, higher rate environments tend to help short portfolios, as easy access to capital might have allowed poor companies to operate inefficiently and mask their flaws. Finally, hedge fund managers are poised to generate incremental alpha from the volatility created by Trump's ongoing trade policies. Newly announced tariffs by either the US or China have already caused increased volatility.