

K2 Australian Absolute Return

Quarterly Investment Option Update

30-June-2018

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1622AU
AMP Flexible Super – Choice (Super)	AMP1613AU
CustomSuper	AMP1598AU
Flexible Lifetime – Allocated Pension	AMP1634AU
Flexible Lifetime – Super	AMP1598AU
Signature Super	AMP1604AU
Signature Super – Allocated Pension	AMP1628AU

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.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

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

Overview

Aim & Strategy: To preserve capital and aim to generate a 10+% p.a. return, after fees, over the long term. This may be suitable for those seeking diversification within traditional asset class exposure, and those with a high risk tolerance. The portfolio generally invests in listed equities in Australia and New Zealand (across sectors that the investment manager believes will add greatest value) although it may also invest in other investments as permitted by its constitution. Typically the portfolio will hold between 50 and 70 listed equities. If deemed appropriate, the portfolio may be 100% invested in cash. While

implementing the long /short strategy the gross invested position of the portfolio will not exceed the net asset value.

Investment category: Specialist equities

Suggested Investment Timeframe: 5 to 7 years

Relative Risk Rating: High

Investment Style: Opportunistic

Asset Allocation	Benchmark (%)	(%)
Cash and deposits		18.75
Australian equities		76.77
International equities		4.48

Holdings

Industry Exposure	%
Basic Materials	19.40
Communications	1.41
Consumer Cyclical	4.32
Consumer, Non Cyc	12.06
Diversified	1.58
Energy	9.27
Financial	25.50
Industrials	6.98
Technology	0.72
Utilities	0
Cash	18.75

Regional Exposure	%
Australia	76.77
New Zealand	4.48
Cash	18.75

Top Ten Securities	%
--------------------	---

BHP BILLITON LIMITED	7.827%
WOODSIDE PETROLEUM LTD	5.533%
MACQUARIE GROUP LTD	5.439%
ALUMINA LTD	5.143%
SUNCORP GROUP LTD	4.525%
RIO TINTO LTD	4.421%
CYBG PLC - CDI	3.943%
WESTPAC BANKING CORP	3.148%
MEDICAL DEVELOPMENTS INTERNA	3.060%
METLIFECARE LTD	2.987%

At a sector level the best contributor to performance was an overweight position in Basic Materials. Our 20% weight delivered a 15% gross return. The fund also benefited by being overweight Energy. The fund held an overweight position in smaller companies; the -5% return detracted from performance. At a stock level the top 5 positive contributors were BHP, Macquarie, Woodside Petroleum, Alumina and Rio Tinto. The top 5 negative contributors were Medical Developments, Boral, Domino's (short), Cedar Woods and Charter Hall (short).

Outlook

K2 remain positively disposed to equities yet acknowledge we are deep into an extended positive economic cycle and need to remain vigilant on valuations and capital preservation. K2 believe corporate profitability growth will gain momentum aided by tax cuts, fiscal stimulus and increased capital expenditure. EPS growth for the market should be more sustainable as growth is unlikely to be diluted by secondary raisings. Given strength in corporate balance sheets the team are of the view that surplus capital will increasingly be retired.

Inflation pressures are gradually building with labour constraints likely to lead to eventual higher wage growth. Tradeable inflation is also likely to rise in the coming months given the strength in petrol prices. The RBA's next move is likely to see rates up not down, yet given current weakening house prices and tighter credit conditions the RBA can remain patient. As cash rates eventually rise, growth improves and the recovery matures K2 expect the PE of the market to decline. K2 is targeting a PE of 15x versus the markets long run average of 14.5x and the current level of 15.7x. K2 expect EPS growth momentum to continue over the next 3 years.

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 believe to 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.

Market Commentary

After the extreme volatility of the first quarter of 2018, the Australian All Ordinaries Accumulation Index delivered three consecutive positive months providing a +13.7% total return for the 2017/18 Financial Year. The second round of public hearings for the Financial Services Royal Commission occurred in April and garnered much attention. Market participants were broadly concerned that banks had been lending irresponsibly and that further regulatory burdens were inevitable. Sell side banking analysts were quick to assume that a credit crunch was probable and a significant housing drawdown was ultimately unavoidable. At its worst point during the quarter, the banking sector underperformed the broad market by 8%. By quarter end the underperformance of the banking sector narrowed to 4.4%.

Investment Option Commentary

The K2 Australian Fund returned +4.0% for the quarter ended 30 June 2018 after fees.

The Fund targets a through the cycle return of + 10% p.a., by limiting fund drawdowns in non-favourable market conditions, through the use of holding cash, short equity positions and active currency management. The strategy allows the fund to protect capital and compound returns off a higher base post market pull backs.

The K2 Australian Fund has been underweight the 4 major banks and has instead held long term positions in Macquarie, CYBG and Suncorp. With volatility becoming de-rigour, the cash allocation and short equity component of the portfolio were utilised to help offset the uptick in market volatility and provide a greater degree of capital protection if the markets were to see a significant correction. Capital protection strategies including short equity detracted from performance during the quarter. The fund held respective average cash and short positions for the quarter of 14.9% and 5.5%.