Responsible Investment Leaders International Share

Quarterly Investment Option Update

30 June 2018

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the MSCI All Country World Index on a rolling 5 year basis. The portfolio invests primarily in international shares diversified across countries, industries and types of companies and is managed using a Responsible Investment approach. The portfolio may also invest a portion of its assets in emerging markets. In certain market conditions, the portfolio may hold a higher level of cash.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1036AU
AMP Flexible Super - Retirement account	AMP1374AU
AMP Flexible Super - Super account	AMP1503AU
CUSTOM SUPER	AMP1036AU
Flexible Lifetime - Allocated Pension	AMP1025AU
Flexible Lifetime - Term Pension	AMP1046AU
Flexible Lifetime Investment	AMP1059AU
Flexible Lifetime Investment (Series 2)	AMP1437AU
METCASH SUPERANNUATION PLAN	AMP1036AU
SignatureSuper	AMP1068AU
SignatureSuper Allocated Pension	AMP1176AU

Top Ten International Shares Exposure	%
APPLE INC	1.74
Microsoft Corp	1.74
TOTAL SA	1.71
PepsiCo Inc	1.57
Equinor ASA	1.46
Estee Lauder Cos Inc/The	1.39
Alphabet Inc	1.37
Unilever PLC	1.27
Mastercard Inc	1.18
Cigna Corp	1.16

Regional Exposure	%
North America	54.22
Europe ex UK	14.96
Asia ex Japan	12.34
Japan	6.07
United Kingdom	4.84
Others	3.43
Cash	2.68
Australasia	1.47

Investment Option Overview

Investment category	Global Equities
Suggested investment timeframe	5-7 years
Relative risk rating	High
Investment style	Responsible investing / Multi-manager

Asset Allocation	Benchmark	Range (%)
Global Shares	100	90-100
Cash	0	0-10

Industry Exposure	%
Information Technology	21.57
Financials	20.03
Health Care	10.97
Consumer Discretionary	10.30
Industrials	8.86
Consumer Staples	8.77
Energy	5.07
Materials	3.66
Real Estate	3.19
Cash	2.68
Utilities	2.63
Telecommunication Services	2.06

Industry Exposure	%
Others	0.23

Portfolio Summary

> The Fund produced a strong absolute return in the June quarter, though slightly underperformed the benchmark.

> Global shares rose in June despite various geopolitical concerns.

> Volatility is likely to remain high in the short-term due to US political noise and a more aggressive US Federal Reserve.

Investment Option Commentary

The Fund produced a strong absolute return in the June quarter, though slightly underperformed the benchmark over the period. Lazard and RIL Emerging Markets Fund outperformed their respective benchmarks whilst Investec underperformed.

Lazard's developed market strategy was again the strongest outperformer. CSL made one of the largest contributions to their portfolio, as the global biotech's stock rose further as the business maintains its international market dominance, which Lazard believes justifies its high valuation. Australian/US currency movements also significantly assisted positive sentiment towards the stock. Other stocks in the portfolio, such as Equinor and Total, benefited from higher oil prices. Equinor has a number of fields coming on line in the next few years that should improve their free cash flow and Total's shares rose on the back of a significant stock buyback.

Investec delivered a positive absolute return albeit while underperforming its benchmark. Technology sector holdings have recently been significant contributors. Storage infrastructure provider, NetApp rose strongly after beating earnings expectations in late May. Sector peer VMware has also been rising of late after announcing a 14% increase in year-on-year sales, ahead of consensus expectations.

The Fund's overweight to emerging markets was negative for the period as they underperformed developed markets. Emerging markets continued to fall amid fears of currency outflows to the US and concerns around US protectionist policies. Both of our underlying managers outperformed the index over the period. Investec's emerging markets portfolio has recently been held back by stocks such as WH Group, a Chinese pork producer, which fell on concerns around the US trade tariffs and Beijing Capital International Airport, which fell after regulatory change was announced that is likely to result in a loss of around 25% of ongoing revenue. CFS's emerging markets portfolio bucked the broader market's trend and was positive in absolute terms. Over the quarter they initiated a new position in Mexican personal-care product company, Kimberly-Clark de México, which they believe to be a high quality business exhibiting sound fundamentals, including a cash return on invested capital of over 30% per annum, 15% free cash-flow margins, high quality management and dominant branding.

Market commentary

Despite a number of global concerns for investors throughout the June quarter, most markets climbed the 'wall of worries' to rise strongly. The MSCI World ex Australia Net Index finished the period higher by 3.4% in local currency terms. Concerns included negative US rhetoric towards Europe with the threat of tariffs on automotive imports, ongoing US/China counter-retaliatory tariff threats, early inflationary concerns in the US, currency concerns in emerging markets (EM) as the US dollar rose and subsequent concerns around the increasing real debt levels of many EM companies which hold their debt in US dollars. The MSCI Emerging Markets total return index was consequently down by 3.5%. China's market particularly suffered amid the US trade skirmishes, ending the period down by 10.6%. Meanwhile, the US S&P 500 total return index ended the period up 3.4%, as companies continue to grow their earnings and economic growth remains strong. The UK's FTSE 100 total return index was extremely strong and reached record-highs in the June quarter, up 9.6% as the Sterling fell (leading to a significant increase in earnings for many UK-based international businesses), commodity prices rose and the Bank of England remained a little less hawkish than expected. (All figures quoted in local currency terms.)

Outlook

Although economic fundamentals remain broadly positive for stocks, the potential for a US initiated trade war has created increased volatility and uncertainty. Despite the elevated volatility, unless a trade war or other serious geopolitical situation eventuates we still expect shares to trend higher over the longer term, helped by the synchronised pickup in global economic activity data and the flow-through to growth and corporate earnings. The greatest near-term pressure is likely to come from political uncertainty in the eurozone. Volatility is likely to remain high in the short-term due to US political noise and a more aggressive Federal Reserve. Global shares appear to be valued reasonably; particularly relative to fixed interest markets, and we expect solid global growth, good corporate earnings and easy monetary conditions will be likely to provide support for shares into the medium term.

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