

Specialist Australian Small Companies

Quarterly Investment Option Update

30 June 2018

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, higher than the return from the S&P/ASX Small Ordinaries Accumulation Index on a rolling 3 year basis. The portfolio invests in small companies listed on the Australian Securities Exchange (ASX).

For this portfolio small companies are considered to be those outside the top 100 listed companies (by market value). Up to 20% of the portfolio may be invested in unlisted companies that the investment manager believes are likely to be listed in the next 12 months, or in companies between the top 50 and 100 listed on the ASX.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0863AU
AMP Flexible Super - Retirement account	AMP1347AU
AMP Flexible Super - Super account	AMP1476AU
CUSTOM SUPER	AMP0863AU
Flexible Lifetime - Allocated Pension	AMP0879AU
Flexible Lifetime - Term Pension	AMP0933AU
Flexible Lifetime Investment	AMP1005AU
Flexible Lifetime Investment (Series 2)	AMP1141AU
METCASH SUPERANNUATION PLAN	AMP0863AU
Signature Super	AMP0951AU
Signature Super Allocated Pension	AMP1147AU

Top Ten Securities Exposure	%
Navigator Global Investments L	2.56
WorleyParsons Ltd	1.93
Ingenia Communities Group	1.81
NEXTDC Ltd	1.77
Bapcor Ltd	1.76
ARB Corp Ltd	1.71
Emeco Holdings Ltd	1.70
Reliance Worldwide Corp Ltd	1.66
Seven Group Holdings Ltd	1.62
Beach Energy Ltd	1.49

Investment Option Overview

Investment category	Small Capitalisation Equities
Suggested investment timeframe	5 - 7 years
Relative risk rating	High
Investment style	Multi-Manager

Industry Exposure	%
Consumer Discretionary	18.34
Materials	17.14
Industrials	14.02
Financials	10.61
Energy	8.81
Information Technology	7.68
Cash	6.71
Health Care	5.71
Real Estate	4.44
Consumer Staples	4.06
Utilities	1.37
Telecommunication Services	1.10

Asset Allocation	Benchmark	Range (%)
Australian Small Company Shares	100	90-100
Cash	0	0-10

Portfolio Summary

- > The Fund produced a positive return (before fees) and substantially outperformed its benchmark over the June quarter
- > Perennial and Eley Griffiths contributed to the strong performance over the period
- > Strong stock selection offset deduction from sector allocation

Investment Option Commentary

The Fund produced a positive absolute return (before fees) and substantially outperformed its benchmark over the June quarter. Perennial Value Management and Eley Griffiths Group contributed to the strong performance over the period.

From a sector allocation perspective, an overweight to energy and underweight to consumer staples were the primary contributors to relative performance, while an overweight to financials was the main detractor. The cash held in the Fund detracted from performance in a strongly performing market. Stock selection was the primary driver of relative returns for the period. In particular, the Fund benefited from strong selection within the financials, consumer staples and energy sectors.

Stocks in which the Fund held overweight positions, such as Navigator Global Investments (+43.9%), Integral Diagnostics (+34.2%) and Gateway Lifestyle Group (+20.7%), rallied strongly over the period, whilst having underweight exposures to Bellamy's Australia (-21.7%), NIB Holdings (-10.2%) and a zero holding in Blue Sky Alternative Investments (-83.6%) also benefited performance. Conversely, the Fund's overweight exposure to retailers Fleetwood Corporation (-20%) and Reject Shop (-24.9%) and underweight exposure to Reliance Worldwide Corp (+25%), Appen (+50.4%) and Wisetech Global (+66.2%) detracted from performance.

The single largest stock contributor was an overweight holding in Navigator Global Investments (+43.9%), an investment management organisation. In early March, the company entered into an asset acquisition agreement with Mesirov Advanced Strategies, a US-based multi-manager hedge fund.

The largest single stock detractor was a holding in Eastern Goldfields (-48.9%), a gold exploration and production company and 100% owner of the Davyhurst Gold Project in the Eastern Goldfields region of Western Australia.

Market commentary

Australian shares were up very strongly in the June quarter, the S&P/ASX200 Accumulation Index soaring 8.5% during the period. Energy and healthcare were the standout sectors for the quarter, rising 19.7% and 16.5% respectively, largely driven by rising resource prices and the rising US dollar; which is heavily tied to the earnings expectations for many Australian businesses, notably (and respectively) BHP and CSL, who were the market's top contributors for the quarter. Telecommunications was the only negative performing sector, down 13.7% for the period, as Telstra fell further on continued shorter-term concerns of reducing profits and dividends, despite the business announcing cost-cutting to be on track and further detailing their new strategy to gain market share. Meanwhile, one of the top performing stocks was poker machine manufacturer Aristocrat Leisure, which rose by 29% over the June quarter as the company announced soaring revenue amid strong growth in its digital gaming division.

Outlook

Top-line growth remains elusive for Australian shares, with many companies still focussing on cost-cutting. Banking profitability is also likely to be constrained by macro-prudential and capital-holding requirements. Banking stocks are also likely to see ongoing volatility until the final Royal Commission's final findings are released. Credit is also likely to be constrained as banks tighten lending standards. In the general economy, investors should benefit by being highly selective and focussing on companies with strong business models that are more cyclical and which tend to perform well as global economic activity picks up. The mining sector remains highly susceptible to any pause in activity from China.

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