Yarra Australian Equities

Quarterly Investment Option Update

30-June-2018

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1341AU
AMP Flexible Super – Choice (Super)	AMP1470AU
CustomSuper	AMP0766AU
Flexible Lifetime – Allocated Pension	AMP0625AU
Flexible Lifetime – Super	AMP0766AU
Flexible Lifetime – Term Pension	AMP0918AU
SignatureSuper	AMP0791AU
SignatureSuper Allocated Pension	AMP1145AU
Flexible Lifetime Investment	AMP0833AU
Flexible Lifetime Investment (Series 2)	AMP1406AU
MultiFund Flexible Income Plan	AMP0763AU

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: To achieve medium-to-long term capital growth through exposure to companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling three-year periods.

Investment category: Australian shares – core

Suggested Investment Timeframe: 5 – 7 years

Standard Risk Measure: 6/ High

Asset Allocation	Benchmark (%)	Range (%)	Actual (%)
Australian shares	100	80-100	97.13
Cash*	0	0-20	2.87

*Includes Futures

Holdings

Industry Exposure	%
Consumer Discretionary	10.75
Consumer Staples	--
Energy	8.49
Financials	34.29
Health Care	5.64
Industrials	12.29
Information Technology	5.13
Materials	16.07
Real Estate	--
Telecommunication Services	4.48
Utilities	--
Cash	1.86
Futures	1.02

Regional Exposure	%
Australia	100

Top Ten Securities	%
Commonwealth Bank of Australia	10.20
Westpac Banking Corporation	8.52
Australia and New Zealand Banking Group	7.87
Origin Energy Limited	4.01
Atlas Arteria	4.01
Seek Limited	4.01
James Hardie	3.90
Macquarie Group Limited	3.74
ResMed	3.29
Santos Limited	2.93

Market Commentary

The Australian equities market rallied in the June quarter, generating its best quarterly return since March 2015.

The S&P/ASX 200 Accumulation Index returned 8.5% in the three months to 30 June 2018, taking its 12 month return to 13.0%. The local index outperformed global indices, with the MSCI World Index returning 3.8% in the quarter and 11.5% for the year.

The Federal Government's 2018-2019 budget was released during the quarter, with only a small impact on equity markets. The government continues to focus on infrastructure projects (positive for engineering and construction companies) and announced plans for tax relief for lower and middle income earners, which may incentivise higher consumer spending over the long-term.

Resources stocks contributed most to the index's return in the quarter. Iron ore majors BHP Billiton (BHP, +20.2%) and Rio Tinto (RIO, +14.8%) supported Metals & Mining (+15.1%) as the iron ore price remained at around $US65 per tonne, defying expectations for it to decline. BHP also benefited from its exposure to oil as WTI crude lifted 14% to $US74 per barrel. Energy (+19.7%) was the top performer with all constituent companies – including Woodside (WPL, +21.3%), Origin Energy (ORG, +15.3%) and Oil Search (OSH, +24.5%) – rising during the period.

In the Industrials space, the Banks (+3.4%) saw relief in the quarter while Health Care (+16.5%) generated strong returns driven by CSL (CSL, +23.9%). The biotechnology company upgraded its FY18 guidance in response to faster-than-expected take up of its new products. The only sector to decline in the quarter was Telecommunication Services (-13.7%). Telstra (TLS, -16.6%) downgraded its FY19 earnings guidance due to weakness from its Mobile division, which management is relying upon to drive earnings growth.

Investment Option Commentary

The portfolio underperformed the benchmark in the June 2018 quarter as strong performances in Financials and Industrials were offset by weakness in Materials and Consumer Staples.

Financials was the largest contributor in the period. Not owning AMP (AMP, -28.7%) added significant alpha after the company was found to have misled regulators. Overweight Macquarie Group (MQG, +23.6%) was another strong contributor following a better-than-expected FY18 result.

Elsewhere, Industrials contributed significantly to performance as a result of continued outperformance from Seek (SEK, +17.3%) and Atlas Arteria (ALX, +13.7%), two high conviction overweights in the portfolio.

Conversely, Materials was the largest detractor during the period due to positioning in Metals & Mining and Construction Materials. In the former, underweights BHP and RIO reduced excess return due to strong commodity prices. In the latter, overweight CSR (CSR, -9.0%) was the largest detractor amid concerns over a slowdown in housing.

In Consumer Staples, not owning Wesfarmers (WES, +18.8%) and Woolworths (WOW, +16.1%) caused underperformance, as well as overweight GrainCorp (GNC, -7.2%) which was exited in the period.

Outlook

The Fund believes fundamentals point to a strengthening earnings cycle for the Australian equity market, with upgrades to FY18 consensus estimates likely. Consensus sees Resources delivering high-single digit growth, with Industrials at mid-single digits and Financials at low-single digits.

Australian equities are priced modestly above their long-term average based on forward earnings estimates, though valuations remain attractive relative to alternatives such as fixed interest. The S&P/ASX 200 Index yields 4.4% on a 12-month forward basis (before franking) versus 2.6% from the Australian 10-year government bond yield.

At a global level, while an economic recovery outlook is driving valuations to elevated levels, the Fund remains alert to economic and geopolitical risks, which include rising interest rates and China's real rate of growth.

The Fund sees significant value in certain sectors but believe others to be overvalued based on earnings and cash flow expectations. The portfolio remains overweight the Energy, Consumer Discretionary and Industrials sectors, but are underweight Real Estate, Metals & Mining and Consumer Staples.

What you need to know