

Specialist Australian Share

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 300 Accumulation Index on a rolling three-year basis. The portfolio primarily invests in shares listed on the Australian Securities Exchange (ASX). The portfolio may also hold up to 5% in international shares, where those securities are also listed on the ASX. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars. The portfolio may use derivatives such as options, futures or swaps to protect against risks or enhance returns. The portfolio may also short sell securities.

Investment Option Performance

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

Investment Option Overview

Investment category	Australian shares
Suggested investment timeframe	5 years
Relative risk rating	High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
Australian shares	100
Cash	0

Actual Allocation	%
Global shares	1.46
Australian shares	93.07
Listed property & infrastructure	2.29
Cash	3.19
Other	0

Portfolio Summary

- > The Fund outperformed the benchmark over the September quarter.
- > Schroders outperformed the benchmark.
- > Australian shares rose over the period as businesses showed reasonable levels of earnings growth.

Fund Performance

The Fund posted a positive absolute return (before fees) for the September quarter, marginally outperforming the benchmark. All of the Fund's five underlying managers made positive returns, but only Schroders outperformed the benchmark over the period. Despite this, four of the Fund's underlying managers have now outperformed the benchmark over the past year, although Perennial, which is running a value strategy, has underperformed.

Stock selection contributed to relative returns, while sector allocation detracted from relative returns over the quarter. Regarding sector allocation, the largest detractors from relative returns were underweight positions in the communication services and health care sectors, while the largest contributor to relative returns was an underweight position in the utilities sector.

Regarding stock selection, performance was strong in industrials, financials and information technology stocks, but energy stocks detracted from relative returns. More specifically, the largest contributor to relative returns was an overweight position in logistics software company Wisetech, which rose sharply (+41.2%) after announcing strong financial year results that exceeded expectations. Other contributors were an overweight position in Downer EDI which climbed higher (+18.5%) on an improving outlook, and an underweight position in Scentre Group which fell (-7.2%) on continued retail gloom.

The largest detractors from relative returns included overweight positions in Origin Energy and Rio Tinto, which despite reporting strong profits over the financial year, both fell (-17.7% and -3.5% respectively) as these didn't meet expectations. Another detractor from relative returns was an underweight position in Telstra which rose (+26.1%) due to the merger announcement of two of its key rivals TPG Telecom and Hutchison Telecommunications, as this is expected to reduce price competition.

Market Review

Australian shares closed the September quarter up 1.50%, as measured by the S&P/ASX300 Accumulation Index.

In July the market climbed higher on positive expectations on earnings growth for the reporting season and was driven by a particularly strong communications sector.

Stocks continued to rise in August through the reporting season, where businesses showed reasonable levels of earnings growth, roughly in line with overall expectations. Key themes were continuing strong dividend payments, some pressure from higher raw material costs, outperformance by high quality offshore exposed companies and softer than expected guidance. On the negative side, some small but marked rises in consumer arrears, within areas such as mortgages and utility bills, indicated a degree of stress in some household finances.

In September, the market gave back some of the gains, as sentiment towards the banking sector continued to sour, culminating with the release of the Royal Commission's scathing preliminary report late in the month. Further residential property declines amid worsening credit conditions, combined with banks raising their interest rates during the month, sparked further pullbacks in bank shares.

Telecommunications and industrials were standout performers during the quarter, while utilities, consumer staples and financials all underperformed. Australian stocks with US dollar earnings generally did well as the US dollar continued to rise.

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 Royal Commission's final findings are released in full. 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.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0655AU
AMP Flexible Super - Retirement account	AMP1346AU
AMP Flexible Super - Super account	AMP1475AU
AMP Growth Bond	AMP1193AU
CustomSuper	AMP0655AU
Flexible Lifetime - Allocated Pension	AMP0600AU
Flexible Lifetime - Term Pension	AMP0921AU
SignatureSuper	AMP0797AU
SignatureSuper - Allocated Pension	AMP1150AU
Flexible Lifetime - Investments (Series 2)	AMP1410AU
Flexible Lifetime - Investments (Series 1)	AMP0854AU
SignatureSuper Select	AMP0797AU

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