

AMP Australian Share

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the S&P/ASX 200 Accumulation Index on a rolling 12-month basis. The portfolio uses several diverse styles including Enhanced Index, Core, Quant, Value and Sustainable Alpha styles to invest. The Enhanced Index approach takes on slightly higher levels of risk, relative to benchmark, than an indexed investment.

The Core style is based on the belief that a key driver of share value is a company's ability to grow earnings. The Quant style uses a number of quantitative techniques to target pricing anomalies across a large number of shares using a highly disciplined investment process. The Value approach aims to identify companies that are currently undervalued in the belief that they will offer better returns. The Sustainable Alpha approach addresses environmental, social and governance issues as part of the financial assessment of companies.

Sector Allocation	(%)
Financials	33.26
Materials	16.91
Consumer staples	6.44
Health care	7.88
Industrials	8.33
Real estate	5.81
Energy	5.69
Consumer discretionary	5.07
Cash	4.12
Information technology	2.16
Telecommunication services	2.50
Utilities	1.83

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 – 7 years
Relative risk rating	High
Investment style	Multi Manager

Asset Allocation	Benchmark (%)
Australian shares	100
Cash	0

Investment Option Commentary

The Fund posted a negative return and underperformed its benchmark over the December quarter. All of the underlying managers underperformed the benchmark, Alphinity and AMP Capital over the quarter, and Firetrail since it was appointed.

Both sector allocation and stock selection detracted from relative returns. Regarding sector allocation, the largest contributors to relative returns were underweight exposures to the communications services and consumer discretionary sectors. The largest detractors from relative returns were an underweight exposure to the materials sector and overweight exposures to the energy and financials sectors. The largest individual contributors to relative returns were from overweight positions in Goodman Group (+4.0%) and Nufarm (-8.9%) and an underweight position in Origin Energy (-21.7%). Goodman Group is likely to be one of the greatest beneficiaries of Amazon's market entry into Australia and rose after announcing a new logistics park in the Ile-de-France region. The largest detractors from relative returns were from overweight positions in CYBG (-44.1%), Worley Parsons (-41.1%) and Seven Group (-37.3%). CYBG is being hurt by ongoing Brexit uncertainty and slower UK property demand.

Market Commentary

Australian shares followed the trajectory of US shares, closing down significantly over the December quarter and returning -8.24% as measured by the S&P/ASX200 total returns Index. This came as traders began to factor in the possibility of a domestic interest rate reduction, rather than a hike sometime in the nearer future, perhaps in 2019 or 2020. Negative sentiment was also added to by political noise, following recent political resignations within the Liberal Party and subsequent moves to the crossbench weakening the government, with an upcoming general election due in May 2019. Despite reasonable corporate profitability and earnings growth, the economic backdrop is presenting some significant hurdles for shares to overcome, such as weak economic growth, poor levels of consumer spending and perhaps most significantly, a falling house market with high and still-increasing levels of supply, falling demand, rising vacancy rates and falling rental yields. The health care segment was one of the better performers over the period, given the "flight to safety" which occurred over the period.

Outlook

Australian shares remain exposed to a Chinese slowdown and the recent global shares sell-off. Banking profitability is also likely to be constrained by increased macro-prudential regulation, capital-holding requirements and a shifting banking structural landscape. Banking shares are likely to see ongoing volatility until the Royal Commission's final findings are released in full, in early 2019. Credit will continue to be subdued as banks tighten lending standards. Economic uncertainty could also be amplified by a volatile political situation as we approach the general election in 2019. In the current environment, investors should benefit by being highly selective and focussing on companies with strong business fundamentals.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0163AU*
AMP Flexible Super - Retirement account	AMP1320AU*
AMP Flexible Super - Super account	AMP1450AU*
CustomSuper	AMP0163AU*
Flexible Lifetime - Allocated Pension	AMP0591AU*
Flexible Lifetime - Term Pension	AMP0891AU*
SignatureSuper	AMP0739AU*
SignatureSuper - Allocated Pension	AMP1129AU*

* Closed to new investors

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