

Specialist Australian Small Companies

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 performance benchmark, the S&P/ASX Small Ordinaries Accumulation Index, on a rolling three-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.

Actual Allocation	%
Australian Shares	80.53
Listed Property & Infrastructure	5.66
Cash	7.27
International Shares	6.54
Others	0.00

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	7 years
Relative risk rating	Very High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
Australian shares	100
Cash	0

Sector Allocation	%
Materials	21.63
Consumer discretionary	16.03
Industrials	13.38
Financials	8.30
Energy	3.81
Information technology	8.88
Cash	7.28
Health care	6.77
Real estate	5.21
Consumer staples	2.68
Utilities	2.19
Telecommunication services	3.85

Portfolio Summary

- The Fund posted a negative return and marginally underperformed its benchmark (before fees) in the December quarter.
- Two of the three underlying managers outperformed the benchmark in a period which was dominated by a 'risk-off' tone.
- The Fund delivered significant outperformance relative to the benchmark over the past year, with all underlying managers contributing.

Investment Option Commentary

The Fund posted a negative return and marginally underperformed its benchmark (before fees) over the December quarter. Amid a dominant 'risk-off' tone in equity markets, all underlying managers delivered negative results, with Perennial Value Management and UBS outperforming the benchmark whereas Eley Griffiths Group lagged. Despite this, the Fund delivered significant outperformance relative to the benchmark over the past year, with all underlying managers contributing.

Sector allocation contributed to relative returns over the quarter, whilst stock selection detracted. Regarding sector allocation, the largest contributors to relative returns were an underweight position in the energy and communications services sectors. Cash held in the Fund was also a significant contributor to relative returns. The largest detractors from relative performance were the underweight positions in the real estate and consumer staples sectors.

Stock selection was strongest within the health care information technology sectors. However, stock selection within the communications services and industrials sectors weighed on relative returns. More specifically, the largest contributor to relative returns was an underweight position in engineering company WorleyParsons (-41%). With significant revenues coming from the oil and gas sectors, the company suffered primarily on the back of the collapse in the oil price during the period. Other contributors include an overweight position in radiology service provider Integral Diagnostics (+1%) and an underweight exposure to media company Nine Entertainment (-34%).

The largest detractor from relative returns was an underweight position in bulk grain handler GrainCorp (+14%), which rose strongly after receiving a takeover offer in early December which represented a significant premium to its share price. Other detractors included overweight positions in mining services companies Ausdrill (-31%) and Emeco Holdings (-41%).

Outlook

Australian shares remain exposed to a Chinese slowdown and the recent global 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 stocks 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	AMP0863AU
AMP Flexible Super - Retirement account	AMP1347AU
AMP Flexible Super - Super account	AMP1476AU
CustomSuper	AMP0863AU
Flexible Lifetime - Allocated Pension	AMP0879AU
Flexible Lifetime - Term Pension	AMP0933AU
Flexible Lifetime - Investments (Series 1)	AMP1005AU
Flexible Lifetime - Investments (Series 2)	AMP1411AU
SignatureSuper	AMP0951AU
SignatureSuper - Allocated Pension	AMP1147AU
SignatureSuper Select	AMP0951AU

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