Specialist Geared Australian Share

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide high returns over the long term through geared exposure to securities listed on the Australian Securities Exchange. The aim is to manage gearing to a level that is supported by expected income. Therefore an investor can gain greater exposure to the Australian share market than an investor with a non-geared exposure. The objective of the investment portfolio before gearing is applied is 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 three-year basis. The strategy invests in a diversified portfolio of equities listed on the Australian Securities Exchange (ASX). The investment portfolio is geared, which allows it the ability to borrow in order to increase the amount that can be invested. The aim of gearing is to contribute more capital and to provide greater exposure to the Australian share market. Underlying managers are also permitted to purchase up to 5% in international listed securities, where those securities are also listed on the ASX. The strategy may also invest up to 10% in cash. However, in certain market conditions the strategy may hold higher levels of cash and short selling may also be used. Any currency exposure will be hedged back to Australian dollars using derivatives, and they may also be used to gain equity market exposure.

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	High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
Australian shares	100
Cash	0

Sector Allocation	%
Financials	28.56
Materials	16.54
Industrials	10.78
Cash	4.03
Consumer staples	6.69
Health care	6.19
Real estate	6.72
Energy	6.01
Information technology	4.38
Consumer discretionary	5.75
Telecommunication services	2.97
Utilities	1.39

Actual Allocation	%
Australian shares	91.77
Listed property & infrastructure	3.69
Cash	3.24
Global shares	1.30

Portfolio Summary

- The Fund posted a negative return and underperformed the benchmark over the December quarter.
- Australian shares followed the trajectory of US shares, closing down significantly.
- In the current environment, investors should benefit by being highly selective and focussing on companies with strong business fundamentals.

Investment Option Commentary

The Fund posted a negative absolute return (before fees) and underperformed the benchmark over the December quarter. All of the Fund's three underlying managers made negative returns and underperformed their respective benchmarks in what was a difficult period in financial markets.

Gearing employed by the Fund was the main driver of underperformance, as Australian shares sold off significantly during the December quarter.

Sector allocation contributed to relative returns, but stock selection detracted from relative returns over the quarter. Regarding sector allocation, the largest contributors to relative returns were underweight exposures to the consumer discretionary and communication services sectors. An overweight exposure to the information technology sector and an underweight exposure to the materials sector were the largest detractors from relative returns.

Regarding stock selection, information technology stocks contributed to relative returns, but this was outweighed by financials, real estate, energy, materials and industrials stocks, which detracted. The main contributors to relative returns were overweight positions in Aurizon Holdings, Healthscope and MYOB Group. Aurizon Holdings rose (+4.1%) as a number of parties showed interest in purchasing their intermodal business, and Healthscope and MYOB rallied (+6.2% and 13.4% respectively) after announcing they'd takeover offers.

The main detractors from relative returns included overweight positions in Lendlease, CYBG and Worleyparsons. Lendlease fell sharply after it identified additional underperformance in its Engineering and Services Business for which it will book a provision of $350 million. CYBG is being hurt (-44.0%) by ongoing Brexit uncertainty and slower UK property demand and Worleyparsons declined as some analysts thought it had overpaid for its acquisition of Texas-based Jacobs Engineering Group's energy, chemicals and resources business.

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	AMP0820AU
AMP Flexible Super - Super account	AMP1481AU
CustomSuper	AMP0820AU
Flexible Lifetime - Allocated Pension	AMP0819AU
Flexible Lifetime - Term Pension	AMP0924AU
Flexible Lifetime - Investments (Series 1)	AMP0850AU
Flexible Lifetime - Investments (Series 2)	AMP1416AU
SignatureSuper	AMP0823AU
SignatureSuper - Allocated Pension	AMP1154AU
AMP Flexible Super - Retirement account	AMP1352AU

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