

Specialist Geared Australian Share

Quarterly Investment Option Update

31 March 2019

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	25.32
Materials	17.45
Industrials	10.74
Cash	7.32
Consumer staples	5.90
Health care	5.44
Real estate	6.61
Energy	5.64
Information technology	4.57
Consumer discretionary	6.07
Telecommunication services	3.31
Utilities	1.11
Unclassified	0.53

Actual Allocation	%
Australian shares	88.09
Listed property & infrastructure	3.69
Cash	6.78
International shares	1.44

What happened last period

- The Fund posted a positive return and outperformed the benchmark over the March quarter.
- All three underlying managers posted positive returns and outperformed the benchmark.
- Gearing was the main driver of outperformance, as Australian shares posted very strong gains over the period.

Fund Performance

The Fund posted a positive absolute return (before fees) and outperformed the benchmark over the March quarter. All of the Fund's three underlying managers posted positive returns and all of them outperformed their respective benchmarks, with DNR Capital the strongest performer, followed by AMP Capital and Vinva Investment Management.

Gearing employed by the Fund was the main driver of outperformance, as Australian shares posted very strong gains over the period. Both sector allocation and stock selection detracted modestly from relative returns. Regarding sector allocation, the main positive contributions came from an underweight position in the financials sector and an overweight position in the information technology sector, while the main detraction came from an underweight position in the materials sector.

Regarding stock selection, the main positive contributors to relative returns were positions in consumer discretionary stocks, while the main detractors were positions in information technology stocks. More specifically, the largest contributor to relative returns was an underweight position in Commonwealth Bank, which underperformed the market (+0.3%) after reporting lower-than-expected results for the 1H 2019 and putting on hold its plans to float its wealth management, mortgage broking and financial planning businesses. Other contributors included an overweight position in engineering company WorleyParsons, which rallied (+25.1%) as the crude oil price rose, and an underweight position in Westpac, which underperformed the market (+3.5%) as it continued to respond to the fall-out from the banking royal commission.

The largest detractor from relative returns was an underweight position in Fortescue Metals Group which rocketed (+78.1%) as iron ore prices increased and the company reported better-than-expected results for the 1H 2019. Other detractors were overweight positions in winemaking and distribution business Treasury Wine Estates and grocery chain Woolworths, which underperformed the market (+2.0% and +5.0% respectively) after reporting results for 1H 2019 results which disappointed analysts.

Market Review

In line with broader global equities, Australian shares posted very strong gains in the March quarter, after significant falls in late 2018. The S&P/ASX200 total return index finished up by 10.89% for the period. The bulk of the quarter's gains came in January and February, as both the banking Royal Commission and domestic reporting season proved to be largely free of any negative surprises, allowing global bullish sentiment to remain the prime driver of the domestic market. Despite the strong performance, uncertainty remains around the upcoming Federal Election and the Labor opposition's proposed tax changes, which include the removal of franking credits for individuals who do not pay tax or receive a tax refund, mainly impacting self-funded retirees who largely own shares for income purposes. Speculation of an interest rate cut from the Reserve Bank (RBA) has also increased, which is also positive for Australian equities, though balancing this, fears of a pull-back in global growth remain, particularly in the US and parts of Europe.

Outlook

Australian shares remain exposed to a global slowdown, particularly in the resources segment. Banking profitability is also likely to be constrained by increased macro-prudential regulation, capital-holding requirements and a shifting banking structural landscape. Credit will likely continue to be subdued as banks tighten lending standards and business confidence pulls back. Economic uncertainty could also amplify market volatility as we approach the general election in 2019 and the parties stake-out their economic plans for the future. 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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