

K2 Australian Absolute Return

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

The strategy aims to deliver investment returns and capital growth over the long-term by seeking out opportunities in undervalued companies in all market cycles. The option adopts a flexible investment style, investing in an index unaware fashion with a long bias and actively adjusting net equity exposure through the dynamic allocation of capital. The strategy invests in listed equities in Australia and New Zealand, typically holding up to 80 different stocks in a range of sectors, but may also hold up to 100% cash depending on market conditions to help protect clients' invested capital. The strategy's performance returns may be impacted either positively or negatively by market conditions, interest rates, equity specific factors, liquidity and currency movements. Short selling may be used when specific opportunities or market conditions have the potential to increase returns. Short positions are subject to diligent ongoing risk review by the investment team and stringent stop-loss guidelines. The strategy does not use leverage to increase the net invested position greater than the Gross Asset Value of the strategy. The strategy may use derivatives including futures, options and forward contracts for hedging purposes. Such instruments are currently used sparingly and the strategy does not have pre-determined in their local currency. The strategy does not use other types of leverage.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Australian Shares
Suggested investment timeframe	3-5 years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager+

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	n/a	62
Cash	n/a	38

Sector Allocation	%
Consumer Discretionary	8.05
Consumer Staples	0.11
Communication Services	6.74
Financials	26.02
Health Care	2.84
Industries	3.83
Information Technology	-0.47
Materials	11.81
Real Estate	3.06
Cash	38.01

Top Holdings	%
Macquarie Group Limited	7.4
Westpac Group Limited	6.6
Nine Entertainment Co	4.5
BHP Group Limited	3.7
Rio Tinto	3.2
Suncorp Group Limited	3.0
Seven Group Holdings Limited	2.8
JB HI-FI Limited	2.7
Medical Developments Int	2.3
AMCOR PLC-CDI	2.2

Portfolio Summary

- Positive quarter for Australian equities.
- Portfolio more defensively positioned with net equity exposure below 80% for the quarter.

Investment Option Commentary

The K2 Australian Fund returned 1.5% for the quarter to June. The Fund's holdings in BHP, Rio Tinto, and Coronado Global Resources all rose for the quarter as investors continued to embrace supply constrained resource companies. Aristocrat Leisure rose 25% for the quarter and was also one of the Fund's best performers following the release of its first half profit that was ahead of market expectations. Westpac Bank and ANZ Bank were also strong performance contributors.

The largest detractor to the Fund's performance for the quarter was NZ retirement village operator Metlifecare; the share price declined 11% as housing market conditions in Auckland continued to retrace and the position was subsequently sold. A number of Australian industrial companies revised earnings lower during the quarter. The Fund's holding in Worley Parsons, Nufarm, Caltex and Star Entertainment all experienced downgrades and detracted from performance.

Market Commentary

During the quarter the Reserve Bank of Australia (RBA) reduced the official cash rate to 1.25%; a reduction of 0.25%. The RBA sighted the disruptive impact that trade disputes were having on global economic activity. In addition the RBA has seemingly found religion regarding spare capacity in the labour market. The RBA has ratcheted down its estimate of the unemployment rate that would be feasible for an inflation target of 2%; it was previously 5% but has now been revised down to 4.5%. Australia's 2 year bond yield subsequently dropped below 1% on the expectation that more rate cuts were imminent.

The ASX All Ordinaries Accumulation Index rose 7.8% for the quarter as market participants speculated that the convergence in the yield differential between equities and bonds would continue.

Outlook

The Fund averaged net exposure of 66.5% for the quarter; long and short exposure was 68.0% and 1.5% respectively. We expect domestic economic conditions to remain fragile near term; political paralysis was very evident during the quarter. However we believe that political stability, policy rationality, taxation benefits and interest rate cuts will all contribute to a more balanced investing climate in FY2020.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1598AU
AMP Flexible Super - Retirement account	AMP1622AU
AMP Flexible Super - Super account	AMP1613AU
CustomSuper	AMP1598AU
Flexible Lifetime - Allocated Pension	AMP1634AU
SignatureSuper	AMP1604AU
SignatureSuper Allocated Pension	AMP1628AU

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