Responsible Investment Leaders Balanced

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the relevant benchmarks of the underlying investments on a rolling five-year basis and to provide a rate of return of 3.5% above inflation (Consumer Price Index (CPI)), after costs and before tax, over a 5 year period. The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash, the portfolio is managed using a responsible investment approach (see additional information about Responsible Investment Leaders for more information).

Investment Option Performance

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

Investment Option Overview

Investment category	Multi-Sector
Suggested minimum investment timeframe	5 years
Relative risk rating	Medium to High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International shares	33
Australian Shares	25
Australian Fixed Interest	13
International Fixed Interest	12
Unlisted Property and Infrastructure	9
Listed Property and Infrastructure	4
Cash	2
Growth Alternatives	2

Actual Allocation	%
International Shares	33.50
Australian Shares	25.38
Listed Property and Infrastructure	4.19
Unlisted Property and Infrastructure	7.99
Growth Alternatives	1.58
International Fixed Interest	11.96
Australian Fixed Interest	12.76
Cash	2.64

Fund Performance

The Fund produced a positive absolute return in the September quarter, building upon recent gains. Over the quarter, returns were boosted by further global monetary easing in the form of interest rate cuts. However, slowing global growth and other geopolitical risks somewhat constrained the underlying sectors' performance. The Fund is below benchmark across most periods due to the difficult market conditions in 2018 and listed managers underperforming their benchmarks, although recent performance has continued to show signs of improvement.

Our Australian share allocation contributed positively to overall fund performance but underperformed in the September quarter. The main drivers were negative stock selection within energy, materials and consumer discretionary as well as negative sector allocation within consumer staples. At the manager level, DNR and Bennelong outperformed, while Ausbil underperformed. Our ESG index allocation performed approximately in line with the broader index over the quarter and continues to show strong performance over the year.

Our international share allocation outperformed slightly in the September quarter, which is pleasing given a difficult start to the year for underlying managers. Lazard, C Worldwide and Boston Partners outperformed the Fund benchmark, whilst the Ethical Leaders Emerging Markets Fund outperformed the emerging markets benchmark index. Stock selection was the key positive contributor to the relative return. An overweight to emerging markets detracted, as developed markets outperformed over the quarter. Positive stock selection however more than offset the drag from the overweight to emerging markets.

The diversified fixed Income portfolio performed approximately in line with its benchmark over the quarter, with a similar theme over the year and longer time periods, as yields remain at historic lows. For similar reasons, our global REIT exposure has had a very strong year. Our allocation to community infrastructure also continues to be a positive contributor to returns, with strong performance year to date, whilst offering an alternative source of return to listed markets.

Environmental Social Governance

Many companies are talking with AMP Capital's ESG research team about the changes they have made to their remuneration for executives. Our approach to reviewing executive remuneration hasn't changed considerably over recent years. The team expects that there will be more shareholder resolutions concerning human rights and we will consider these on a case-by-case basis. Climate change risk and scenario testing will also be a key focus this proxy-voting season.

Ausbil engaged with JB Hi-Fi's management on what practical steps they are taking to prepare themselves for the Modern Slavery Act, given that consumer electronics is a hot spot for labour-rights issues. Ausbil also participated in a roundtable discussion with commissioners from the Australian Electricity Market Commission (AEMC) which focussed on investor views about climate change, for example, how to invest in the transition to a decarbonised world and required policy changes.

Market Review

International shares climbed higher in the September quarter, with the MSCI World ex Australia index rising by 1.50% over the period. Markets started the quarter positively amid generally good US corporate earnings and hopes of a favourable US-China outcome. A pull-back then occurred in August and some volatility emerged as speculation rose in regard to the sustainability of global (and particularly US) growth. Mixed messages on monetary policy from the Fed also didn't help. Global markets then recovered to higher levels in September amid continued volatility. Drivers included central bank interest rate reductions and commentary (as the US Federal Reserve reduced the Federal Funds Rate range by a further 25 basis points to 1.75-2.0%), the drone strike in Saudi Arabia by Iranian-backed Houthi rebels, as well as some small but positive US-China trade developments.

Australian shares also rose over the September quarter, the S&P/ASX200 total return index closing up by 2.37%, with more record-highs being hit during the period. Reserve Bank of Australia (RBA) rate cuts and dovish commentary buoyed Australian markets, as did solid rises from the US and other international exchanges. Some positive indications from the Melbourne and Sydney property markets, which have undergone a significant correction over the past two years, also helped domestic sentiment, given the Australian economy's very large exposure to the sector.

After showing some signs of consolidating early in the September quarter, global government bond markets rallied into the widely anticipated move by the US Federal Reserve to lower the Federal Funds Rate range by 0.25% following its policy meeting on 31 July, and picked up momentum during August as an escalation of the US-China trade dispute eroded investor confidence in global economic growth prospects. The significant fall in bond yields prompted yield curves globally to flatten. In September, bond yields initially moved higher amid indications that the US economy continues to create new jobs, however yields subsequently retraced part of their rise after disruptive drone attacks on Saudi Arabian oil facilities saw the return of 'risk off' sentiment and the US Federal Reserve lowered the target range for the federal funds rate by a further 0.25%. Monetary easing also featured in Europe later in the period, where the European Central Bank announced a reduction in its deposit rate to -0.50% and a planned restart in November of its asset purchase plan at a rate of €20 billion per month. The US 10-year bond yield ended the quarter at 1.66%, while its German and Japanese counterparts ended at -0.57% and -0.21% respectively.

Monetary policy dominated news flow in the Australian bond market in the September quarter, with the Reserve Bank of Australia announcing a 0.25% reduction in early July, bringing the official cash rate to 1.0% and offering continued dovish comments. Against this backdrop, the domestic yield curve mirrored the flattening trend evident in overseas peers and reached its flattest level since 2010.

Outlook

Moving into the final quarter of 2019 we remain cautious, as global markets face a variety of unpredictable situations. Continued concerns around the US-China trade tensions for example, or a no-deal Brexit may compound slowing global growth, increasing the risk of recession and restraining equity returns. Whilst a combination of monetary policy easing and Chinese stimulus could somewhat offset these concerns, a resolution in the trade disputes and an improvement in global growth appears necessary for sustained returns going forward.

Given this backdrop, we continue to hold an overweight allocation to equities, and meaningful positions in alternatives, property and infrastructure in order to diversify our risk assets and support portfolio growth in the event of equity market declines. We also maintain a neutral allocation to fixed income, as the low-interest rate environment supports fixed income markets, despite valuations remaining historically high.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1033AU
AMP Flexible Super - Retirement account	AMP1371AU
AMP Flexible Super - Super account	AMP1500AU
CustomSuper	AMP1033AU
Flexible Lifetime - Allocated Pension	AMP1022AU
Flexible Lifetime - Investments (Series 1)	AMP1056AU*
Flexible Lifetime - Investments (Series 2)	AMP1434AU
Flexible Lifetime - Term Pension	AMP1043AU
SignatureSuper	AMP0977AU
SignatureSuper - Allocated Pension	AMP1173AU
SuperLeader	AMP1884AU

*Closed to new investors

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