

# Responsible Investment Leaders Conservative

Quarterly Investment Option Update

30 September 2019

## Aim and Strategy

To provide a total return (primarily income with some capital growth) after costs and before tax, above the return from the relevant benchmarks of the underlying investments on a rolling three-year basis. The portfolio invests in all asset classes, with a core of cash and fixed interest and some exposure to 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](http://www.amp.com.au)

## Investment Option Overview

|                                               |               |
|-----------------------------------------------|---------------|
| <b>Investment category</b>                    | Multi-Sector  |
| <b>Suggested minimum investment timeframe</b> | 3 years       |
| <b>Relative risk rating</b>                   | Low to Medium |
| <b>Investment style</b>                       | Active        |
| <b>Manager style</b>                          | Multi-manager |

| Asset Allocation                     | Benchmark (%) |
|--------------------------------------|---------------|
| International Fixed Interest         | 24            |
| Australian Fixed Interest            | 22            |
| Cash                                 | 19            |
| International shares                 | 15            |
| Australian Shares                    | 11            |
| Listed Property and Infrastructure   | 5             |
| Unlisted Property and Infrastructure | 2             |
| Defensive Alternatives               | 2             |

| Actual Allocation                  | %     |
|------------------------------------|-------|
| International Shares               | 16.35 |
| Australian Shares                  | 11.67 |
| Listed Property and Infrastructure | 7.25  |
| International Fixed Interest       | 20.89 |
| Australian Fixed Interest          | 24.74 |
| Cash                               | 19.10 |

## Fund Performance

The Fund produced a strong positive return over the September quarter, boosted by further global monetary policy easing. The Fund outperformed its benchmark index (before fees), mainly due to the strong outperformance of the international listed property allocation, although the underperformance of the Australian shares allocation constrained relative returns.

The diversified fixed income allocation modestly outperformed its benchmark over the quarter, as yields remained at historic lows. For similar reasons, the international listed property allocation rallied strongly and outperformed its benchmark. The infrastructure allocation also contributed positively to relative returns, while also providing diversification benefits.

The international shares allocation slightly outperformed its benchmark over the quarter. Lazard, C Worldwide and the emerging markets allocation all outperformed their respective benchmarks. Stock selection was the key positive contributor to relative returns, with positions in both emerging market stocks and developed markets stocks adding value. Asset allocation detracted moderately from relative returns, with an overweight allocation to emerging markets the main detractor.

The Australian shares allocation moderately underperformed its benchmark over the quarter, despite outperformance from Bennelong and DNR. The ESG index allocation modestly underperformed the broader share market index over the quarter but continues to outperform over the year. Sector allocation was the main detractor from relative returns, particularly an underweight allocation to consumer staples. Stock selection contributed positively to relative returns, with positions in real estate and communication services adding the most value.

Underlying manager engagement included: talking to Australian companies about the impact of the Modern Slavery Act; continued focus on climate change, including helping develop energy sector policy strategy and subscribing to 'green bonds' and 'sustainability bonds'; addressing issues with executive remuneration and board composition; and reporting on progress to improve access to medicine.

## 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

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. They then picked up momentum during August as an escalation of the US-China trade tensions 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 jobs were still being created in the US, 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 policy easing also featured in Europe later in the period and 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 the Australian bond market in the September quarter, with the Reserve Bank of Australia announcing a 0.25% reduction in the official cash rate in early July, bringing it to 1.0% and offering continued dovish comments. Against this backdrop, the Australian bond yield curve mirrored the flattening trend evident globally and reached its flattest level since 2010.

International shares climbed higher over the September quarter, with the MSCI World ex-Australia index rising

1.50%. Share markets started the quarter positively, amid generally good US corporate earnings and hopes of a favourable US-China trade outcome. However, in August a pull-back occurred and some volatility emerged due to increasing speculation about the sustainability of global, and particularly US, economic growth. Mixed messages on monetary policy from the US Federal Reserve also didn't help. Share markets then recovered to higher levels in September as volatility continued. Drivers included central bank interest rate reductions, the drone attacks on Saudi Arabian oil facilities, as well as some small but positive US-China trade developments.

Australian shares also rose over the September quarter, with the S&P/ASX200 total return index gaining 2.37% and record-highs hit during the period. The market was buoyed by the Reserve Bank of Australia reducing the official cash rate and solid rises in international share markets. Some positive indications from the Melbourne and Sydney housing 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 housing.

## Outlook

Moving into the final quarter of 2019 we remain optimistically 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 share market returns. While a combination of monetary policy easing and Chinese policy stimulus could somewhat offset these concerns, a resolution in the trade dispute and an improvement in global growth appears necessary for sustained returns going forward.

Given this backdrop, we continue to hold a slightly overweight allocation to both international shares and Australian shares. We also hold meaningful positions in international listed property, infrastructure and defensive alternative assets to diversify risk and support portfolio growth in the event of share market declines. We maintain a neutral allocation to fixed income, as the low-interest rate environment supports fixed income markets, despite valuations remaining historically high. We prefer Australian bonds over international bonds.

## Availability

| Product Name                               | APIR       |
|--------------------------------------------|------------|
| AMP Flexible Lifetime Super                | AMP1034AU  |
| AMP Flexible Super - Retirement account    | AMP1372AU  |
| AMP Flexible Super - Super account         | AMP1501AU  |
| CustomSuper                                | AMP1034AU  |
| Flexible Lifetime - Allocated Pension      | AMP1023AU  |
| Flexible Lifetime - Investments (Series 1) | AMP1057AU* |
| Flexible Lifetime - Investments (Series 2) | AMP1435AU  |
| Flexible Lifetime - Term Pension           | AMP1044AU  |
| SignatureSuper                             | AMP0978AU  |
| SignatureSuper - Allocated Pension         | AMP1174AU  |

\*Closed to new investors

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267



### What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL), AMP Capital Funds Management Limited ABN 15 159 557 724, AFSL 426455 (AMPCFM), ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from the issuer or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (Responsible Investment Leaders Conservative). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

No other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.