Responsible Investment Leaders Balanced

Quarterly Investment Option Update

31 March 2020

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	31.56
Australian Shares	20.20
Listed Property and Infrastructure	4.02
Unlisted Property and Infrastructure	8.94
Growth Alternatives	1.83
International Fixed Interest	13.63
Australian Fixed Interest	14.98
Cash	4.83

Fund Performance

After a strong 2019, the Ethical Leaders Balanced Fund had a challenging first quarter of 2020 as the world economy was brought to a standstill by the COVID-19 pandemic. Despite diversification and active management reducing the impact, the swiftness and severity of the virus all but erased the returns generated in 2019 as risk assets experienced sizable drawdowns. Relatively, the Fund slightly underperformed the benchmark, with a very small overweight to global property and a slight underweight to fixed income contributing the most to underperformance. Contributions from underlying listed market managers were mixed.

In Australian equities, stock selection was particularly strong within the real estate, healthcare and industrial sectors. This was offset by stock selection in the financials and energy sectors along with an underweight to consumer staples. At a stock level, overweights to ResMed plus Fisher & Paykel Healthcare as well as an underweight to Scentre Group were the strongest contributors. On the flip side, overweights to Macquarie Group and Worley Parsons, along with the exclusion of Woolworths from the portfolio on ethical grounds detracted from performance. From an active manager perspective, all managers except DNR outperformed. Our ESG index exposure also outperformed over the quarter and is up very strongly since inception.

In international equities, the Ethical Leaders International Shares Fund underperformed over the March quarter by 140bps. Sector allocation contributed positively to performance; however, it was offset by negative stock selection in the IT, industrials and consumer staples sectors. Stock selection contributed positively within materials, with overweights to Newmont plus Shin-Etsu Chemical and an underweight to BASF adding the most value.

The Fund's fixed income exposure underperformed by 1% over the quarter. The vast bulk of this underperformance was delivered by Alliance Bernstein, our global credit and sovereign manager. This mandate includes green bonds. Sector allocations detracted over the quarter through underweights to eurozone and US treasuries. Exposure to high-yield corporates in the eurozone and the US, and an overweight to emerging-market corporates also detracted. Some of this was offset by underweights to US quasi-sovereigns and local municipal bonds and overweights to eurozone regional bonds and sovereign agencies.

Unlisted real asset allocations provided some cushioning from the equity market volatility. The Fund's exposure to infrastructure is via the AMP Capital Community Infrastructure Fund. With 95% of income derived from governments paying for social assets like schools and hospitals based on an availability rather than use, this exposure is likely to show continued resilience during the Covid-19 crisis.

Environmental Social Governance

Over the first quarter of 2020, the world's strong focus on climate change and the environment took a backseat due to the immediate threat and fight against the COVID-19 health crisis and its economic and social impacts. However, while the 'E' is not as high on the agenda as it was just a few months ago, we have seen an increased focus on the 'S' in ESG. This includes increased focus on how corporates approach and treat employee health and safety, but also how corporates more pro-actively assist and engage with other stakeholders eg customers, suppliers, and local communities – increasing the reputational risk for companies not perceived to be meeting these expectations.

For example, **Ausbil** participated in a forum discussing opportunities and challenges for potential law reform on human rights issues. The manager also met with companies to discuss human rights risk management in their supply chains.

Market Review

The March 2020 quarter was one of the worst periods ever for global share markets as the COVID-19 pandemic rapidly escalated fears around the globe. The MSCI World ex Australia index finished the period down by 20%, having briefly reached lows not seen since 2016 before finishing the quarter with a late rally. Across regions and sectors, few stocks were spared from the falls, as traders continued to sell in favour of cash. Some panic-selling was evident, particularly later in the quarter as fundamentals undoubtedly took a backseat to momentum-trading. In the final week of March, the market was able to recoup some of these losses as the panic-selling dropped off. Price movements in many stocks were further exacerbated by the triggering of stop-losses, as well as some evidence of forced selling from funds in order to meet redemption requests. Emerging markets couldn't escape the sell-off and performed only marginally better than their developed-market peers. While some apparent-bargains emerged from the sell-off, assessing the near-term hit to earnings and to what degree markets have priced this in is not easy. Indeed, many companies withdrew their forward guidance. A positive for shares was global stimulus levels promptly reaching unprecedented levels, as a swift, synchronised policy response was seen around the globe in the forms of monetary easing and enormous amounts of targeted fiscal stimulus. In many cases, packages included direct payments to residents and businesses. (Indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Australian shares were hit heavily by the COVID-19 crisis in the March quarter, falling by 23.1%, as measured by the S&P/ASX200 index on a total return basis. This was despite a strong performance in January which led to record highs being touched early in the quarter, before fears grew around the COVID-19 virus and the likely sharp economic downturn it has caused. This resulted in large amounts of indiscriminate panic-selling, particularly during mid-to-late quarter. While the virus and its associated lockdowns are causing a significant and sharp effect on earnings, it is still the general (and a mostly logical) consensus that this will be temporary in nature, although the timeframe is hard to accurately forecast. Nonetheless, some areas of apparent good value emerged from the broad sell-down, albeit many companies withdrew their forward guidance given a lack of earnings visibility and flagged that dividends may be impacted. Positive for shares, the Australian government announced an enormous amount of targeted fiscal stimulus, totalling around A$200 billion or 10% of GDP, which is nearly double that of the stimulus injected during the Global Financial Crisis. The RBA also cut the official cash rate to 0.25% and announced low-cost funding for banks, at 0.25% for three years.

Global government bond yields drifted lower at the start of the year amid geopolitical tensions in the Middle East and the impeachment of US President Donald Trump. Yields subsequently accelerated lower as a rapid escalation in the human and economic impact of COVID-19 prompted global central bankers to significantly lower interest rates and governments to undertake unprecedented fiscal stimulus. Trading was characterised by heightened volatility, reflecting market concerns over the longer-term cost of the fiscal response, contrasting with optimism regarding its near-term social benefits. The US 10-year bond yield ended the quarter 125 basis points lower at 0.67%. Similarly, the German 10-year bond yield declined by 135 basis points to -0.47%, while its Japanese counterpart ended the quarter at 0.02%.

Australian government bond yields moved lower in January against the backdrop of a softening in domestic economic momentum over the preceding months. Yields subsequently exhibited heightened volatility over the remainder of the March quarter as a sharp fall in response to the deepening impact of the COVID-19 crisis gave way to an upward spike amid fears of a liquidity crunch. The RBA addressed the issue of market liquidity by cutting the cash rate by 0.25%, setting a 0.25% yield target for Commonwealth 3-year bonds, and providing funding for domestic banks. The Commonwealth Government 10-year bond yield declined by 61 basis points over the quarter to 0.76%, while the Commonwealth Government 2-year bond yield ended 67 basis points lower at 0.25%.

Outlook

Coming into 2020, the Fund was neutrally positioned, as our investment process had flagged that a correction was possible at some stage. In February, as Covid-19 began its spread beyond China, we sought cost-effective equity hedges, as it appeared that the virus was likely to threaten the global growth story that dominated markets in early 2020.

It has since become clear that Covid-19 is likely to cause a sharp and deep economic shock, with the extent of contagion impacts still unclear. In March, as volatility in listed markets spiked, we made the active decision to reduce our equity targets in favour of more risk-adverse assets such as cash and fixed income. Until there is some certainty surrounding infection rates and the length of lockdowns, the Fund is likely to remain somewhat underweight growth assets such as equities, slightly overweight on our bond positioning and overweight cash.

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

Contact Details

Web: **www.amp.com.au**
Email: askamp@amp.com.au
Phone: 131 267

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