

Responsible Investment Leaders Growth

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. The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash and listed property, 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 - 7 years
Relative risk rating	High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International shares	42
Australian Shares	36
Listed Property and Infrastructure	6
International Fixed Interest	5
Australian Fixed Interest	4
Unlisted Property and Infrastructure	3
Cash	2
Growth Alternatives	2

Actual Allocation	%
International Shares	39.91
Australian Shares	28.07
Listed Property and Infrastructure	6.82
Unlisted Property and Infrastructure	3.04
International Fixed Interest	7.02
Australian Fixed Interest	6.32
Cash	8.81

Fund Performance

After a strong 2019, the 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 share market falls all but erased returns generated in 2019. The Fund underperformed its benchmark, mainly due to stock selection in international shares and an overweight exposure to international listed property.

The international shares allocation underperformed its benchmark over the quarter, even though C World Ethical strongly outperformed. Sector allocation contributed positively to relative returns, but this was more than offset by stock selection which detracted. Stock selection was weakest in information technology, industrials and consumer staples. However, the overweight exposure to consumer staples contributed positively to relative returns as did the underweight exposure to energy. An overweight exposure to emerging markets detracted.

The Australian shares allocation also underperformed its benchmark over the quarter, despite Bennelong and Ausbil, as well as AMP Capital's ESG index exposure outperforming. Sector allocation was the main detractor from relative returns, particularly an underweight exposure to consumer staples. Stock selection contributed positively to relative returns, with positions in real estate, health care and industrials particularly strong.

The diversified fixed income allocation also underperformed its benchmark over the quarter. The vast bulk of this underperformance was due to exposure to global credit, which came under pressure. Sector allocation was the main detractor from relative returns, particularly underweight exposures to eurozone and US treasuries.

Over the quarter, the world's focus on the 'E' in ESG took a backseat due to the immediate threat and fight against the COVID-19 health crisis and its economic and social impacts. This has seen an increased focus on the 'S', including how corporates approach and treat employee health and safety, but also how corporates more pro-actively assist and engage with other stakeholders, such as customers, suppliers, and local communities.

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 fear about the COVID-19 pandemic rapidly escalated. The MSCI World ex Australia index finished down 20%, having briefly reached lows not seen since 2016, before a rally late in the period. Across regions and sectors, few shares were spared from the falls, as traders continued to sell in favour of cash. Some panic-selling was evident, particularly in March as fundamentals undoubtedly took a backseat to momentum-trading. However, in the final week of March, some of the losses were recouped as the panic-selling dropped off. The price movements of many shares were further exacerbated by the triggering of stop-losses, as well as some evidence of forced selling from managed funds in order to meet redemption requests. 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 earnings guidance. A positive for share markets was the unprecedented levels of stimulus, as a swift, synchronised policy response from around the globe in the forms of monetary easing and enormous targeted fiscal packages. In many cases, packages included direct payments to residents and businesses.

The Australian share market was also hit heavily by the COVID-19 crisis over the March quarter, with the S&P/ASX200 index falling 23.1%. This was despite strong performance in January, which led to record highs being touched, before fears increased about COVID-19 and the sharp economic downturn it is likely to cause.

Global government bond yields drifted lower at the start of the quarter 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 banks to significantly lower interest rates

and governments to announce unprecedented fiscal stimulus packages. Trading was characterised by heightened volatility, reflecting concerns about the long-term cost of the fiscal packages, contrasting with optimism regarding its near-term social benefits. The US 10-year bond yield ended the quarter 1.25% lower at 0.67%. Similarly, the German 10-year bond yield declined 1.35% to -0.47%, while its Japanese counterpart ended the quarter at 0.02%. (All returns are quoted in local currency terms and on a total-return basis, unless otherwise stated.)

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 to spread beyond China, we sought cost-effective share market hedges, as it appeared that the disease was likely to threaten the global growth story that had dominated markets earlier in the year.

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 share allocation targets in favour of more defensive 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 shares, slightly overweight on our bond positioning and overweight cash.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1035AU
AMP Flexible Super - Retirement account	AMP1373AU
AMP Flexible Super - Super account	AMP1502AU
CustomSuper	AMP1035AU
Flexible Lifetime - Allocated Pension	AMP1024AU
Flexible Lifetime - Investments (Series 1)	AMP1058AU*
Flexible Lifetime - Investments (Series 2)	AMP1436AU
Flexible Lifetime - Term Pension	AMP1045AU
SignatureSuper	AMP0979AU
SignatureSuper - Allocated Pension	AMP1175AU

*Closed to new investors

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