

# Future Directions Moderately Conservative

Quarterly Investment Option Update

30 June 2020

## Aim and Strategy

To provide moderate returns over the medium term through a diversified portfolio of assets such as fixed interest, shares, property and alternative assets. The portfolio aims to achieve a rate of return above inflation after costs over a 3 to 5-year period and to provide a total return, after costs and before tax, higher than the return from the relevant benchmarks of the underlying investments. The portfolio also aims to exceed the Chant West Multi-Manager Survey (Balanced Growth) Median(competitor universe) on a pre-tax basis.

## Investment Option Performance

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## Investment Option Overview

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

| Asset Allocation                     | Benchmark (%) |
|--------------------------------------|---------------|
| International shares                 | 20            |
| Australian Fixed Interest            | 17            |
| Australian Shares                    | 17            |
| International Fixed Interest         | 14            |
| Cash                                 | 10            |
| Growth Alternatives                  | 7             |
| Listed Property and Infrastructure   | 5             |
| Unlisted Property and Infrastructure | 5             |
| Defensive Alternatives               | 5             |

| Actual Allocation                    | %     |
|--------------------------------------|-------|
| International Shares                 | 19.17 |
| Australian Shares                    | 17.11 |
| Listed Property and Infrastructure   | 4.96  |
| Unlisted Property and Infrastructure | 5.28  |
| Growth Alternatives                  | 6.44  |
| International Fixed Interest         | 17.44 |
| Australian Fixed Interest            | 16.16 |
| Defensive Alternatives               | 4.09  |
| Cash                                 | 9.34  |

## Fund Performance

After a volatile March quarter, the Fund delivered a positive return over the June quarter as global markets rebounded due to encouraging developments in the global response to COVID-19. Growth assets, particularly shares, provided the largest contribution to overall return, partially recovering from lows experienced at the height of COVID-19 concerns in late March. Relatively, the Fund outperformed the benchmark, largely driven by manager performance in the Australian shares and credit allocations. The Fund also comfortably exceeded its CPI objective over the period.

During the period, the more interest rate sensitive assets, such as the Fund's sizeable credit and bond allocations, generated positive returns as they gained liquidity support from central banks. Investor sentiment improved throughout the period as central banks and governments around the globe adopted stimulus programmes and commenced reopening economies. Growth assets, such as the Fund's shares allocations, experienced sizeable rebounds in this environment, despite the ongoing risks surrounding COVID-19. Developed and emerging market shares rallied 18.5% and 16.7% respectively (in local currency terms), boosted by the positive employment and business confidence data released. Australian shares rose 16.5%. Returns from the Fund's direct property and infrastructure allocations were constrained as asset revaluations captured the adverse impact of COVID-19.

## Market Review

As expected, global markets were heavily impacted by COVID-19 government restrictions and the flow-on effects of lockdown. Equities were volatile as shifting sentiment created swings between a risk-on and risk-off bias. Despite this, there was a net sharp rally over the quarter in equity markets as some COVID-19 lockdown measures started to be unwound. This leaves equity markets open to the risk of a correction. COVID-19 impacts were aggravated by increasingly acrimonious relations between the US and China. In addition, there is the risk of further waves of COVID-19, especially in the more densely populated countries, and the potential for economies to fall back once working capital supplied by government policies peters out and companies review their strategies and demand. The World Bank, the Organisation for Economic Co-operation and Development, and the International Monetary Fund all indicate they expect the worst global recession since the Great Depression.

In the US, the Federal Reserve (Fed) significantly increased its COVID-19-related lending programmes. Fed Chairman Jerome Powell suggested the central bank will use its "full range of tools" and act "forcefully, proactively and aggressively until it is confident the economy is on the road to recovery". He also said the central bank still had plenty of options available, with the expectation that monthly bond purchases will increase.

## Outlook

Looking ahead, we remain cognisant of the prevailing risks associated with COVID-19 over the near term. With certain regions continuing to experience rising infection rates, the possibility of a 'second wave' could lead to further social distancing measures being imposed or economies reverting to lockdowns. Ultimately this leaves markets susceptible to a correction or bouts of volatility should the situation worsen. We maintain a highly diversified portfolio to mitigate and diversify risk away from share market movements while holding a close to neutral growth-defensive asset split. A tilt into investment grade credit, away from government bonds has also been adopted, given the more attractive yields and global central bank liquidity support for the asset class.

## Availability

| Product Name                               | APIR       |
|--|------------|
| AMP Flexible Super                         | AMP1487AU* |
| AMP Flexible Super - Retirement            | AMP1358AU* |
| CustomSuper                                | AMP0660AU  |
| Flexible Lifetime - Allocated Pension      | AMP0607AU* |
| Flexible Lifetime - Investments (Series 1) | AMP0689AU* |
| Flexible Lifetime - Investments (Series 2) | AMP1422AU* |
| Flexible Lifetime - Super                  | AMP0660AU* |
| Flexible Lifetime - Term Pension           | AMP0930AU* |
| SignatureSuper                             | AMP0804AU  |
| SignatureSuper - Allocated Pension         | AMP1160AU  |
| SignatureSuper Select                      | AMP0804AU  |

\*Closed to new investors

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