

# Future Directions Balanced

Quarterly Investment Option Update

31 March 2022

## Aim and Strategy

The strategy aims to achieve a rate of return of 3% above the inflation rate (measured by the Consumer Price Index) after investment fees and before tax over a 5-year period. Using a multi-manager approach, it provides investors access to a diversified portfolio with a bias towards growth (shares and property) and alternative assets, while having a limited exposure to income assets (bonds and cash). The multi-manager option diversifies at asset and manager level. The key benefits are: active management: within the asset classes (for example choosing stocks) and allocating between asset classes, a broad range of asset classes including investments into unlisted property and infrastructure, and an experienced investment team.

## Investment Option Performance

To view the latest investment performances for each product, please visit [www.amp.com.au/performance](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Multi-Sector
<b>Suggested minimum investment timeframe</b>	5 years
<b>Relative risk rating</b>	High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Global shares	31
Australian shares	24
Growth alternatives	10
Global fixed interest	8
Australian fixed interest	8
Defensive alternatives	4
Unlisted property	4
Global listed property	3
Cash	3
Unlisted infrastructure	3
Global listed infrastructure	2

<b>Actual Allocation</b>	<b>%</b>
International Shares	30.31
Australian Shares	25.91
Listed Property and Infrastructure	6.18
Unlisted Property and Infrastructure	6.34
Growth Alternatives	8.55
International Fixed Interest	10.82
Australian Fixed Interest	7.02
Defensive Alternatives	1.62
Cash	3.27

## Fund Performance

The Fund endured a highly volatile start to 2022, generating a negative return in the March quarter. Concerns over the Russian invasion of Ukraine, higher commodity prices and a potential acceleration in interest rate hikes to combat inflation weighed on both equity and bond markets. Overall, the Fund performed broadly in line with the neutral benchmark but underperformed the CPI objective over the period. Despite near-term volatility, longer term performance remains in line with expectations over most key time horizons.

With Russia a major energy and commodity producer, the conflict in the Ukraine pushed prices to extreme levels, exacerbating an already stretched global supply chain and surging inflationary environment. Global developed equity markets reacted negatively to this over the quarter, finishing -4.8% lower. Emerging market equities also struggled as concerns emanating from China amid a surge of Omicron cases compounded broader geopolitical concerns. Australian equities recovered towards quarter end to finish up 2.2% as higher commodity prices and a sound economic backdrop boosted returns. Fixed income markets struggled as government bonds suffered one of their worst performing quarters in recent history. Bond yields moved higher as central banks became more hawkish, increasing cash rates in an attempt to manage persistent inflationary pressures. Listed real assets were mixed, with infrastructure outperforming property given the correlation to commodity and oil prices. Unlisted real assets remained relatively stable over the period.

Despite weaker absolute returns, the Fund performed in line with the benchmark in the March quarter and continues to perform well over longer periods. Underweight allocations to Australian and international bonds in favour of Australian shares, infrastructure and alternatives helped mitigate drawdown relative to benchmark given the sizeable bond sell off. Unlisted real assets and private equity were also strong contributors as valuations remained stable. Outperformance was however partially mitigated by weaker stock selection from underlying Australian share and hedge fund managers.

## Market Review

The beginning of the March quarter saw growth asset markets globally experience significant falls and volatility, as concerns increased around prevailing high inflation rates and the path towards the normalisation of interest rates. Despite a raft of concerns, sentiment generally improved in many growth markets towards the end of the quarter. Inflation increased further to 7.9% in February in the US and remains significantly elevated in most major economies like the UK and Canada. With no sign of a reprise in rising costs of living, the US Federal Reserve (Fed) finally raised rates in March by 0.25%, whilst also signalling it would likely raise them six more times this year. The US yield curve also became inverted (as measured by a narrowing gap between 10-year bond yields and 2-year bond yields), raising further recessionary fears.

By mid-February, investor sentiment shifted its focus towards Eastern Europe following Russia's invasion of Ukraine, which continued through the period. Economic sanctions were placed on Russia by nations around the globe. In a surprise counter to the sanctions, President Putin subsequently announced that Russia would seek payment from "unfriendly countries" for its oil and gas in Russian rubles, a significant move given a partial dependence on Russian energy supply from many European nations, including Germany, France, the Netherlands, Italy, Hungary, and Poland.

## Outlook

Looking ahead, markets are likely to see continued volatility as the Ukraine crisis, inflation, monetary tightening and COVID-19 all remain significant risks. Despite the potential for short-term fluctuations, economic growth and profit margins remain relatively healthy. Given this, we remain cautiously optimistic for equity markets on a selective basis. Bond exposures, however, are likely to see continued pressure as yields move higher. In this environment, we continue to maintain an active, well diversified asset exposure favouring Australian equities and alternatives at the expense of domestic and international fixed interest. We believe members should remain

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resilient and retain a focus on the long-term outcomes of the Fund and avoid being dictated by short-term corrections, particularly given likelihood of volatility over the coming 6-12 months.

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## Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0690AU**
Flexible Lifetime - Investments (Series 2)	AMP1412AU**
SignatureSuper	AMP0798AU
SignatureSuper - Allocated Pension	AMP1080AU
SignatureSuper Term Pension	AMP1080AU

\*\*Closed to new and existing investors

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