

AMP Core Retirement Fund



Portfolio Manager Update – March Quarter 2024

ARSN 613 309 925, APIR code AMP3254AU

Quarterly commentary

Performance

The AMP Core Retirement Fund (the Fund) returned 2.3% for the March quarter, reflecting both equity strength and defensive asset weakness. Global share markets continued to rise strongly over the period, fuelled by improving growth numbers from the US and a dovish US central bank. Europe, US, and Japanese share markets were particularly robust. Australian share markets also gained strength, rising for five consecutive months. However, the domestic market has lagged the global market this year, held back in part by a struggling materials sector and poorer earnings outlook.

Alongside stronger growth numbers, US inflation also continues to surprise higher, notably in core service areas such as healthcare and insurance. As a result, expected rate cuts in the US for this year have been reduced from around six to seven to fewer than three at the end of March. This has weighed on bond markets as well as on interest rate sensitive markets such as listed infrastructure. It has also to some extent weighed on income strategies with high dividend yield indices underperforming the broader markets in both Australia and globally.

During the quarter the Fund participated in the technology sector's outperformance with strong contributions from international equity managers such as GQG and Arrowstreet. Notably, Australian equity strategies also outperformed in what was a difficult market for dividend centric holdings. The main detractors were government bonds and a defensive position in the cheap Japanese yen which lost value.

Portfolio management

While the Fund has maintained its risk level at slightly above neutral, several small changes were made through the quarter. These included increases in international shares managed by active managers, primarily GQG. This is partly due to outperformance, but also in recognition of the fact that our active managers continue to find great value in differentiating between different parts of the market.

Some switches were made from government bonds to high-quality credit, where credit spreads, while not the cheapest historically, still offer a reasonable premium with little immediate credit risk. Further reductions were made in liquid alternatives, where performance has been disappointing. Some of this exposure was switched to SouthPeak where the core volatility strategies continue to perform very well.

Dynamic asset allocation (DAA) is an active overlay strategy the Fund runs in liquid futures. During the March quarter these positions added an exposure to equities, a short exposure to government bonds, and small increases in commodities. The DAA process is performing well this year.

Lastly, a new hedge position was added in US options. The US market has run very hard, and some areas have been flashing warning signals. US options offer some relief from this reversing in the short term, be it either from market profit taking, geopolitical escalation, or reactions to higher inflation.

Outlook

The US economy has remained, on balance, surprisingly resilient. Unemployment remains low, GDP growth is surprising to the upside and some economic surveys suggest ongoing expansion. There are, nonetheless, some signs of weakness including softening wages growth, falling liquidity, tight policy settings, negative leading indicators, and some still positive recessionary indicators. Perhaps the largest immediate threat is the bounce in inflation which has pushed back expected rate cuts and forced bond yields higher. While this is likely to create some turbulence, it is not likely to derail markets unless inflation forces a pivot to more rate hikes rather than delay, or growth starts to disappoint.

The Middle East remains a flashpoint with fears of escalation remaining. The US earnings season also kicks off in April with a relatively high bar for US tech sectors. However, overall expectations are that sales growth will remain solid and margins healthy. Areas of weakness remain apparent in some very large stocks such as Tesla and Apple, where sales and earnings growth have slowed. In contrast, companies such as Amazon, Nvidia, and Microsoft look strong.

The portfolio is positioned relatively neutrally in terms of overall risk, with a bias to adding bond duration once inflation turns over. High yield credit exposure has been kept underweight given expensive pricing, and international shares have been favoured relative to Australia. Option protection has been increased in the US and in Germany given attractive pricing and heightened policy and geopolitical risks.

Manager allocation

Asset Class	Exposure %	Manager	Strategy	Exposure Q4 23 %	Exposure Q1 24 %	Change %
Australian Equities	11.7	Multi Manager	Australian Small Companies	1.9	2.0	-0.1
		Passive	Futures	-9.5	-7.3	-2.2
International Equities	18.9	Martin Currie	Income	9.6	8.5	1.1
		Yarra	Income	9.6	9.2	0.4
		Orbis	Global Value	3.3	3.1	0.2
		Arrowstreet	Quantitative Long Short	6.4	5.4	1.0
		GQG	Quality Growth	4.7	3.2	1.5
		Passive	Developed Market Futures	0.8	-0.6	1.4
Listed Real Assets	8.2	Passive	Emerging Markets	3.7	3.8	-0.1
		Dimensional	Listed Infrastructure	5.9	6.0	-0.1
		Macquarie	Listed Property	2.3	2.0	0.3
High Yield Debt	5.2	Loomis Sayles	Senior Floating Rate Bank Loans	1.1	0.9	0.2
		Passive	Emerging Market Debt ETF	4.1	3.5	0.6
Fixed Income & Cash	42.6	Passive	Government Bonds	0.9	3.6	-2.7
		Passive	US IG Corp. Bonds ETF	20.9	12.7	8.2
Alternatives	13.4	Cash	Cash	20.8	30.0	-9.2
		SouthPeak	Systematic Vol Risk Premia	3.9	3.2	0.7
		AMP Multi Manager	Liquid Alternatives	8.5	12.4	-3.9
		Commodities	Commodities	1.0	0.0	1.0
Hedges	-0.1	Passive	Equity options	-0.1	-1.6	1.5

Note: Allocations and underlying investment managers may change without prior notice.



We're here to support you

If you are a direct investor and would like to speak to someone in regards to your investment, please contact AMP Investments Client Services on 133 267 or email ampinvestments@amp.com.au.

If you are an adviser, you can contact Client Services as above or your State Account Manager.

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