

AMP Multi-Asset Fund

Portfolio Manager Update – December Quarter 2023

ARSN 150 406 143, APIR code AMP1685AU

Quarterly commentary

Performance

The AMP Multi-Asset Fund (the Fund) returned 6.0% (gross of fees and taxes) in the December quarter in what was a strong finish to the year. Over the quarter global shares increased by over 9.0% and global bonds by 5.4%. Real assets such as listed infrastructure also rose sharply.

These gains were the result of a combination of an ongoing fall in inflation and what was seen as a pivot from the US Federal Reserve (the Fed) in its view that peak interest rates have likely been reached, that the job market is re-balancing, and that inflation is heading in the right direction. At the same time, the Fed noted that these trends would have to continue before the central bank could start to normalise policy. This more dovish stance drove performance gains across a wide variety of assets, including previous laggards such as small companies and listed property. Bonds outperformed notably in what was one of the strongest quarters in history for fixed income: US 10-year yields moved from around 4.6%, peaking soon thereafter at almost 5.0%, before plunging below 3.9% at year-end.

The Fund's asset allocation lifted performance over the quarter, with small overweight positions held in both bonds and equities. Security selection also contributed to returns with net outperformance driven primarily by quantitative strategies in Australian and international equities and volatility strategies in alternatives. Cash and some alternative strategies lagged broader markets, while dynamic asset allocation strategies also gave back previous gains as weak bond trends reversed rapidly.

Portfolio management

The Fund has been running at close to neutral levels of risk with no strong asset allocation positions. Interest rate exposure has been at- or above-neutral at most times, with preference for the US and Australia. We have maintained a small overweight to equities at around the 40% of total exposure, marginally favouring global shares and listed infrastructure over Australian and emerging market equities. The Fund is avoiding high yield credit and debt, favouring instead investment grade credit and some emerging market debt exposure.

During the quarter the Fund sold its holdings in short-term inflation-linked bonds as real rates rallied back toward 2%. Hedges were added in Europe in the German share market as hedging costs remained very cheap and European and Chinese economic data continued to be soft.

In currencies we retained some exposure to the Japanese yen for defensive reasons. However, given the Bank of Japan's very cautious approach to policy changes, we have trimmed this exposure back in anticipation of better levels. The yen remains cheap and offers compelling upside profit in the event of a recession or downturn in the US and globally.

In emerging markets, we added a small position in Korean equities where high earnings growth and cheap valuations offer an attractive alternative to the rest of emerging markets at present.

Outlook

The near-term challenge for markets is that interest rate reduction expectations appear to be overdone. In the US for example, a rate in March was being priced as a certainty, but now appears to be too soon (unless growth or employment start falling faster than they are already). A decrease in June seems more likely. However, with the US Federal Reserve expecting around three rate cuts, and the market almost six in 2024, there is room for further rate disappointment in the near term. In the longer term we do expect cuts both in the US and Australia, with the key variables being how economic data and inflation progress. Currently economic data has been as good as could be hoped for at this point, but with softer numbers expected after the surge experienced in the September in the US.

US GDP growth is forecast to drop to around 1.3% in 2024 (from 2.4% in 2023), and to 1.4% in Australia (from 1.9% in 2023). Australia has an additional burden of higher inflation (3.5% expected in 2024 versus 2.6% in the US) of which means we are at risk of having policy remain at current levels for a bit longer than the US.

In terms of market levels, global shares do look fully priced at 17.5 times 2024 earnings. However, this is being somewhat distorted by the US where multiples are above 20, whereas most other developed markets are below 15 and emerging markets are below 12. Australia appears to be very fully valued with valuations elevated but no earnings growth expected this year or next.

Given the outlook of softer growth and what is still tight credit and tight policy playing through the economy, it is difficult to justify any strong overweight to global shares or credit markets currently. Global bonds have rallied very sharply, but any bounce back offers another opportunity to add to these before the tailwinds of rate cuts eventually arrives, likely in the second half of 2024. The scale of those cuts depends on the growth and employment trajectory, with persistently higher inflation or wage growth a risk.

Manager allocation

Asset Class	Exposure %	Manager	Strategy	Exposure Q4 2023 %	Exposure Q3 2023 %	Change from Q3 2023 %
Australian Equities	13.7	Multi Manager	Australian Small Companies	2.5	2.1	0.4
		Passive	Futures	2.8	3.0	-0.2
		Vinva	Quantitative Long Short	8.4	7.2	1.2
International Equities	17.7	Orbis	Global Value	4.2	4.5	-0.3
		Arrowstreet	Quantitative Long Short	5.4	6.8	-1.4
		GQG	Quality Growth	4.1	4.5	-0.4
		Passive	Developed Market Futures	-0.9	0.8	-1.7
Listed Real Assets	10.5	Passive	Emerging Markets	4.9	3.4	1.5
		Dimensional	Listed Infrastructure	6.0	6.0	0.0
		Macquarie	Listed Property	4.5	2.0	2.5
High Yield Debt	5.3	Loomis Sayles	Senior Floating Rate Bank Loans	0.8	0.7	0.1
		Passive	Emerging Market Debt ETF	4.5	3.0	1.5
Fixed Income	13.5	Passive	Government Bonds	2.2	2.3	-0.1
		Passive	US IG Corp. Bonds ETF	11.3	7.1	4.2
		Passive	US 0–5-year TIP	0.0	10.3	-10.3
Cash	18.4	Cash	Cash	18.4	15.5	2.9
Alternatives	0.0	TCW	US Mortgage Debt	0.0	0.2	-0.2
Absolute return	22.8	SouthPeak	Systematic Vol Risk Premia	3.8	4.2	-0.4
		AMP Multi Manager	Liquid Alternatives	19.0	23.3	-4.3
Hedges	-1.9	Passive	Equity options	-1.9	-6.9	5.0
Total	100.0			100.0	100.0	-

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

What you need to know:

This document has been prepared by National Mutual Funds Management Ltd (ABN 32 006 787 720, AFSL 234652) (NMFML). While every care has been taken in the preparation of this document, NMFML makes no representation or warranty as to the accuracy or completeness of any statement in it including without limitation, any forecasts. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. Investors should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to their objectives, financial situation and needs.

ipac Asset Management Limited ABN 22 003 257 225, AFSL 234655) (IAML) is the responsible entity of AMP Capital Multi-Asset Fund referred to as AMP Multi-Asset Fund (**Fund**) and the issuer of the units in the AMP Capital Multi-Asset Fund referred to as AMP Multi-Asset Fund (**Fund**) and the Product Disclosure Statement(s) (PDS). To invest in the Fund, investors will need to obtain and consider the current PDS or other offer document for the relevant Fund(s) available at amp.com.au/investments-pds. The PDS or offer document contains important information about investing in the Fund and it is important that investors read the PDS or offer document before making a decision about whether to acquire, or continue to hold or dispose of units in the Fund. A target market determination has been made in respect of the Fund and is available at www.amp.com.au/investments-tmd. Neither IAML, NMFML nor any other company in the AMP Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.