Future Directions

Issued
December 2023

All returns are quoted net of investment fees and taxes

Contents

Message from your fund manager

After trending upwards over the first half of the year, share markets began to wobble in the December quarter. Coming into this period, market sentiment had been optimistic – it seemed inflation had receded and the interest rate tightening cycle had peaked without anything 'breaking' in the economy, i.e., without a 'hard landing' or immediate recession. A different narrative however began to take hold these past three months – what many are calling a reality check – as it dawned on investors that interest rates are, to quote the US Federal Reserve (Fed), likely to stay 'higher for longer'.

At the close of 2023, in surveying the year that was, we think back to where and how it began; and in so doing, one cannot help but observe how different its two bookends are. The year began with investors facing a wall of worries – rising interest rates, inflation pressures, market volatility, geopolitical risk and, the big one, the threat of recession. The year though ended without that widely predicted recession materialising. There was however economic resilience in the face of tighter conditions, talk of interest rates going down and markets surging as a result.

Against this more optimistic backdrop, markets powered through the year-end finish line, to cap off what turned out to be a much stronger year than many expected. Global equities were up 8% for the month of November then 4% in December, contributing to a 23% return for the calendar year. The Australian market was similarly buoyant in the closing stages of the year, adding 5% in November and 7% in December, though its annual return of 12% lagged offshore counterparts. Even many unloved sectors, those that struggled in the early part of the year, finished strongly. For example, emerging markets added 6% for the December quarter (10% annual) and global listed real estate was up 14% for the December quarter (9% annual).

In the context of rising rates and still-high inflation, it was naturally a more challenging year for fixed income. By mid-way through the final quarter, yields on 10-year government bonds had climbed to levels in the order of 150 bps higher than where they opened the year, in both Australia and the US. Though yields later retraced, this illustrates what a tough and volatile 12 months it has been for fixed income. Composite bond indices (i.e., accounting for both government and corporate bonds) only managed returns of around 5% for the year. It was a similar story for unlisted assets such as direct property and infrastructure which, constrained by the valuation effect of high bond yields, could not keep pace with the rally in listed equity markets.

All in all, we are delighted to report a strong year for AMP's MySuper Lifecycle Options. Calendar year returns ranged from high single digits in the lower risk options, to solid double digits for our younger members. While the largest contribution to overall returns came, unsurprisingly, from investments in global and Australian equities, we were pleased to see a breadth of asset types contributing positively to this performance. All asset classes in the MySuper Lifecycle Options delivered positive returns for the year, with the exceptions of listed infrastructure and direct property, which are relatively small exposures.

As we enter 2024 and look to the year ahead, we see that the wall of worries referred to at the outset continues to cast a shadow. It has evolved from the one that confronted investors a year ago, but its contours are broadly similar. Though interest rates have likely peaked, they remain high and their full effect continues to play out. Similarly, inflation, though receding, remains elevated. Geopolitics is an ever-present 'X factor', and the risk of recession is also still on the table.

While some of these factors, such as the prospect of lower interest rates, make for an improved outlook, others may serve to dampen returns and add to volatility this year. While we cannot know how 2024 will ultimately play out, we do know we have done everything we can to ensure our portfolios are prepared, come what may. As ever, diversification – by asset type, strategy and investment manager – is at the heart of our strategy. This helped the AMP MySuper Lifecycle Options succeed in 2023 and we are confident it will continue to steer them well through 2024 and beyond.

Anna Shelley
Chief Investment Officer

Future Directions **Conservative**

Fund objective

To provide moderate returns over the medium term through a diversified portfolio, with a bias towards defensive assets such as cash and fixed interest. The portfolio aims to achieve a rate of return above inflation after costs over a three-year period.

Investor Profile

- **Standard risk measure:** 3/Low to medium
- **Suggested minimum investment timeframe:** 3 years

Performance

The Future Directions Conservative Fund returned 3.4% for the December quarter.

Quarter Highlights

Despite some bumps along the road, 2023 ended on a positive note, with both share and bond markets generating strong returns as inflation fell and markets anticipated lower interest rates ahead in 2024. This translated well for the Fund, with both Q4 and one-year time periods generating a positive return. Additionally, the Fund outperformed its CPI objective but underperformed its strategic objectives both for the December quarter and 2023 as a whole.

The run into year-end saw share markets rally on positive sentiment, after the Fed reflected on inflation slowing faster than anticipated and stronger than expected economic growth following continued resilience in the global economy. In this environment both Australian and global shares gained 8.4% and 9.9% respectively for the quarter. All sharemarket sectors, including listed real assets, saw strong gains over the period but again growth-focussed technology stocks stood out as the major market mover. The December quarter also saw bonds mirror share market movements, supported by the more dovish anticipated path for interest rates. Credit markets, both investment grade and high yield also benefited in this environment as spreads tightened. Unlisted real assets were mixed as revaluations of underlying assets impacted direct property, while infrastructure remained stable.

Strong market gains as well as exposure to a variety of alternative asset classes saw the Fund end 2023 on a high. Relative to the strategic benchmark, returns have been mixed, with near-term performance somewhat

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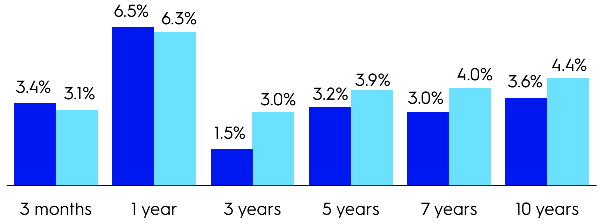
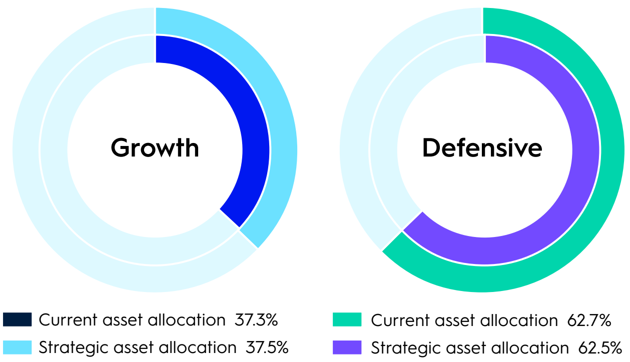
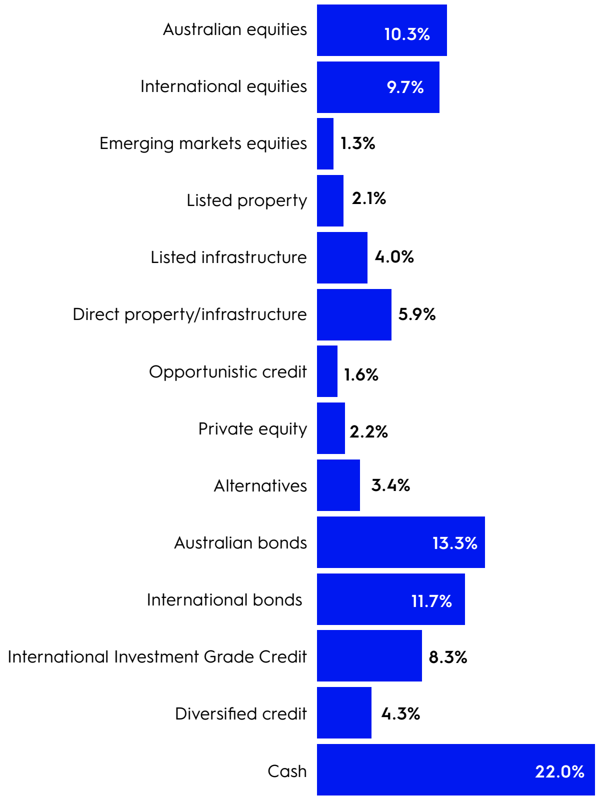
Looking ahead, we anticipate 2024 to be a broadly positive year for markets, helped by peaking and eventually falling interest rates - but it is not without risks. The timing of interest rate cuts remains uncertain as central banks continue to monitor the economy and inflation, with a considerable risk to markets that rate cuts may come later than expected. Recessionary risks also remain, given tighter lending standards and stalling consumer spending globally. In this environment, we remain highly diversified across defensive asset classes and strategies and have shifted to a broadly neutral position across most asset classes, limiting active risk across the portfolio.

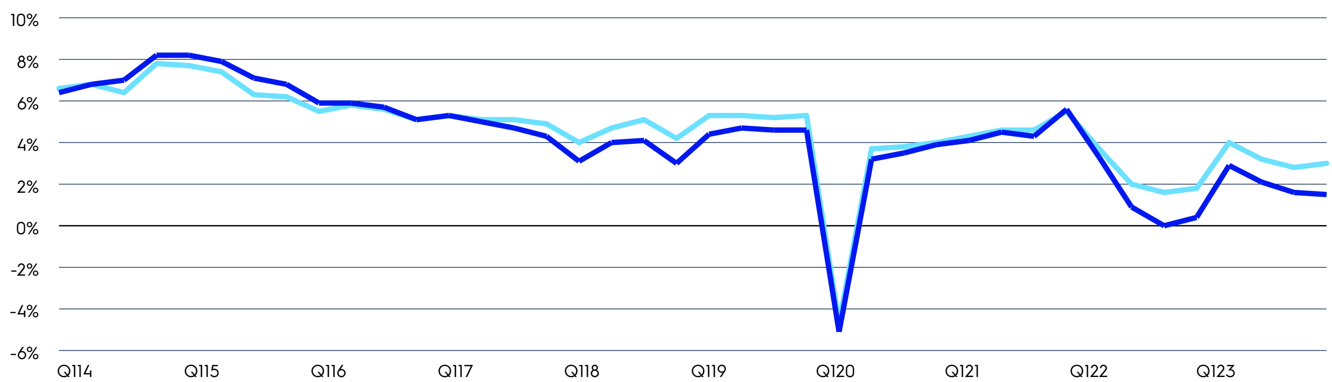


Performance as at 31 December 2023. Past performance is not a reliable indicator of future performance. All returns are net of investment fees and taxes.





Current asset allocation as at 31 December 2023.



Source: Chant West Multi-Manager Quarterly Survey.

Future Directions Moderately Conservative

Fund objective

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 three to five-year period.

Investor Profile

- **Standard risk measure:** 4/Medium
- **Suggested minimum investment timeframe:** 3 to 5 years

Performance

The Future Directions Moderately Conservative Fund returned 3.9% for the December quarter.

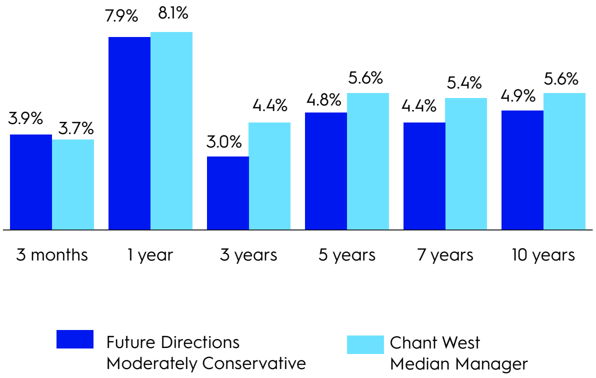
Quarter Highlights

Despite some bumps along the road, 2023 ended on a positive note, with both share and bond markets generating strong returns as inflation fell and markets anticipated lower interest rates. This translated well for the Fund, with both Q4 and one-year time periods generating a positive return. Additionally, the Fund outperformed its CPI objective but underperformed its strategic objectives both for the December quarter and 2023 as a whole.

The run into year-end saw share markets rally on positive sentiment, after the Fed reflected on inflation slowing faster than anticipated and stronger than expected economic growth following continued resilience in the global economy. In this environment both Australian and global shares gained 8.4% and 9.9% respectively for the quarter. All sharemarket sectors, including listed real assets, saw strong gains over the period but again growth-focussed technology stocks stood out as the major market mover. The December quarter also saw bonds mirror share market movements, supported by the more dovish anticipated path for interest rates. Credit markets, both investment grade and high yield also benefited in this environment as spreads tightened. Unlisted real assets were mixed as revaluations of underlying assets impacted direct property, while infrastructure remained stable.

Strong market gains as well as exposure to a variety of alternative asset classes saw the Fund end 2023 on a high. Relative to the strategic benchmark, returns have been mixed, with near-term performance somewhat challenged, whilst medium and longer-term performance has been more stable. Unlisted real assets and private equity constrained relative performance as valuation movements underperformed gains in equity markets over the quarter. Australian and global equity allocations performed slightly below benchmark, as active stock selection from underlying managers was mixed. Bond and investment grade credit allocations outperformed their benchmarks over the quarter. Performance versus CPI has improved over most time periods. Relative performance over the medium-term remains mixed, however near and long-term performance is now ahead.

Looking ahead, we anticipate 2024 to be a broadly positive year for markets, helped by peaking and eventually falling interest rates - but it is not without risks. The timing of interest rate cuts remains uncertain as central banks continue to monitor the economy and inflation, with a considerable risk to markets that rate cuts may come later than expected. Recessionary risks also remain, given tighter lending standards and stalling consumer spending globally. In this environment, we remain highly diversified across asset classes and strategies and have shifted to a broadly neutral position across most asset classes, limiting active risk across the portfolio.



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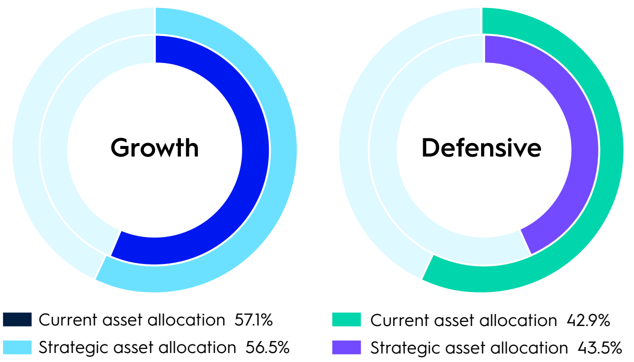
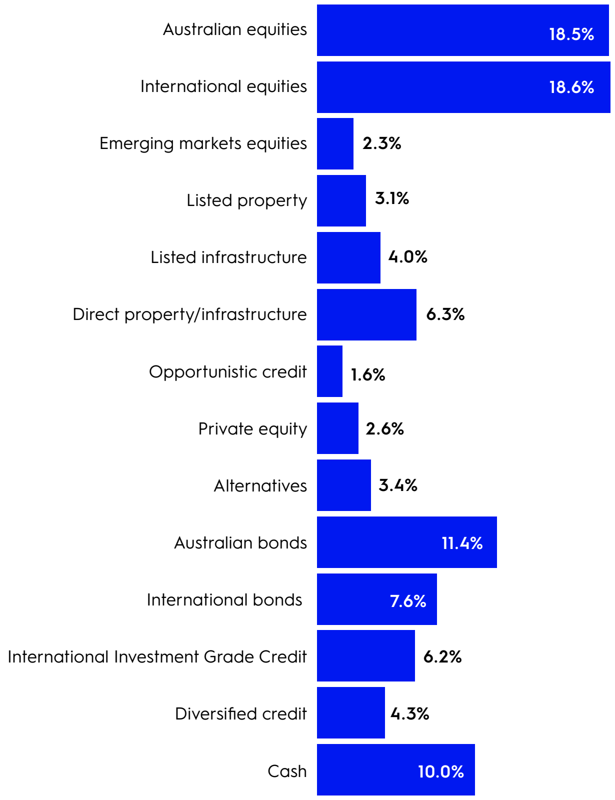
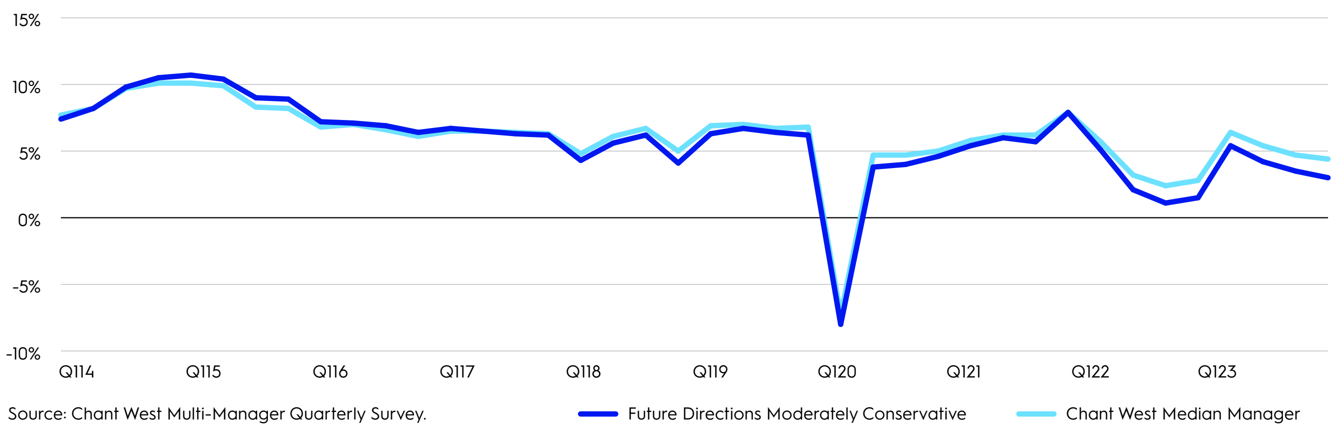




Current asset allocation as at 31 December 2023.



Source: Chant West Multi-Manager Quarterly Survey.

Future Directions **Balanced**

Fund objective

To provide moderate to high returns over the long term through a diversified portfolio, with a bias towards growth assets such as shares, property and alternative assets. The portfolio aims to achieve a rate of return above inflation after costs over a five-year period.

Investor Profile

- **Standard risk measure:** 5/Medium to high
- **Suggested minimum investment timeframe:** 5 years

Performance

The Future Directions Balanced Fund returned 4.2% for the December quarter.

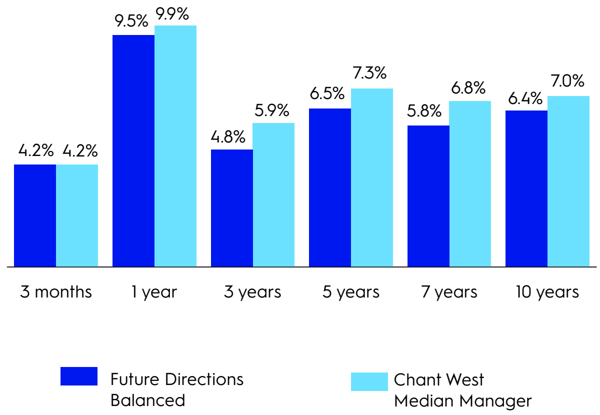
Quarter Highlights

Despite some bumps along the road, 2023 ended on a positive note, with both share and bond markets generating strong returns as inflation fell and markets anticipated lower interest rates. This translated well for the Fund, with both Q4 and one-year time periods generating a positive return. Additionally, the Fund outperformed its CPI objective but underperformed its strategic objectives both for the December quarter and 2023 as a whole.

The run into year-end saw share markets rally on positive sentiment, after the Fed reflected on inflation slowing faster than anticipated and stronger than expected economic growth following continued resilience in the global economy. In this environment both Australian and global shares gained 8.4% and 9.9% respectively for the quarter. All sharemarket sectors, including listed real assets, saw strong gains over the period but again growth-focussed technology stocks stood out as the major market mover. The quarter also saw bonds mirror share market movements, supported by the more dovish anticipated path for interest rates. Credit markets, both investment grade and high yield also benefited in this environment as spreads tightened. Unlisted real assets were mixed as revaluations of underlying assets impacted direct property, while infrastructure remained stable.

Strong market gains as well as exposure to a variety of alternative asset classes saw the Fund end 2023 on a high. Relative to the strategic benchmark, returns have been mixed, with near-term performance somewhat challenged, whilst medium and longer-term performance has been more stable. Unlisted real assets and private equity constrained relative performance as valuation movements underperformed gains in equity markets over the quarter. Share market allocations, in both Australian and global markets, were slightly below benchmark as active stock selection from underlying managers was mixed. Bond and investment grade credit allocations outperformed their benchmarks over the quarter of 2023. Performance versus CPI has improved over most time periods. Relative performance over the medium term remains mixed, however near and long-term performance is now ahead.

Looking ahead, we anticipate 2024 to be a broadly positive year for markets, helped by peaking and eventually falling interest rates - but it is not without risks. The timing of interest rate cuts remains uncertain as central banks continue to monitor the economy and inflation, with a considerable risk to markets that rate cuts may come later than expected. Recessionary risks also remain, given tighter lending standards and stalling consumer spending globally. In this environment, we remain highly diversified across asset classes and strategies and have shifted to a broadly neutral position across most asset classes, limiting active risk across the portfolio.



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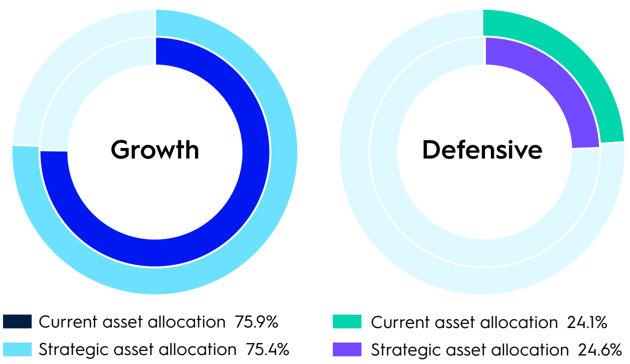
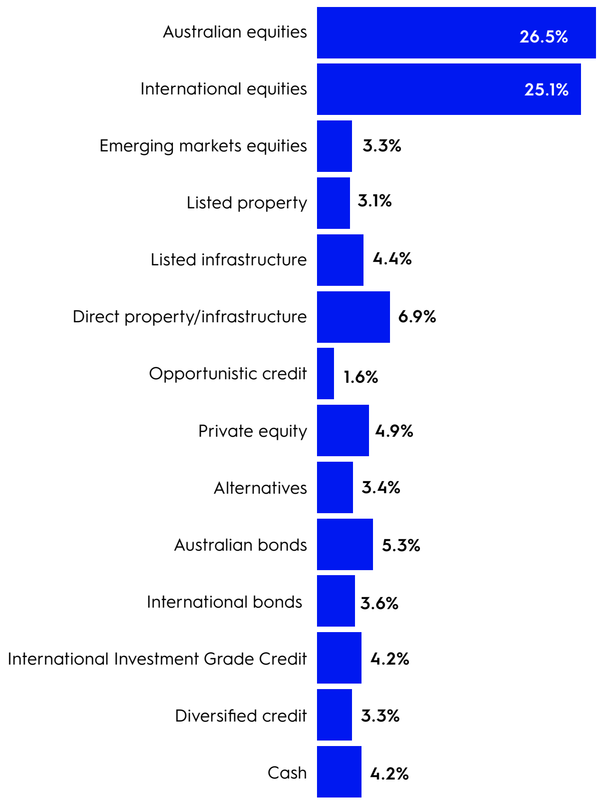
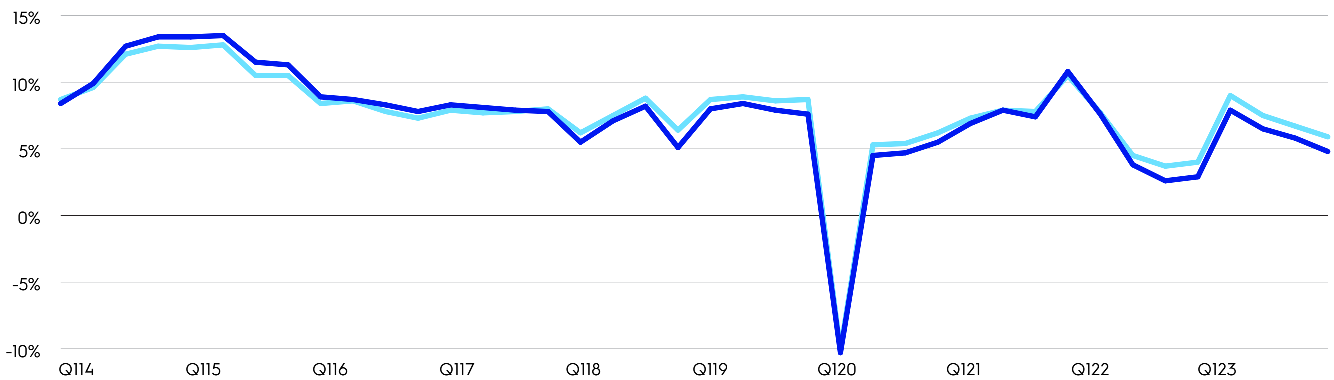




Current asset allocation as at 31 December 2023.



Source: Chant West Multi-Manager Quarterly Survey.

Future Directions **Growth**

Fund objective

To provide high returns over the long term through a diversified portfolio investing mostly in shares with some exposure to property, fixed interest and alternative assets. The portfolio aims to achieve a rate of return above inflation after costs over a five to seven-year period.

Investor Profile

- **Standard risk measure:** 6/High
- **Suggested minimum investment timeframe:** 5 to 7 years

Performance

The Future Directions Growth Fund returned 4.4% for the December quarter.

Quarter Highlights

Despite some bumps along the road, 2023 ended on a positive note, with both share and bond markets generating strong returns as inflation fell and markets anticipated lower interest rates ahead in 2024. This translated well for the Future Directions Growth Fund, with both Q4 one-year time periods generating a positive return. Additionally, the Fund outperformed its CPI objective but underperformed its strategic objectives both for the December quarter and 2023 as a whole.

The run into year-end saw share markets rally on positive sentiment, after the Fed reflected on inflation slowing faster than anticipated and stronger than expected economic growth following continued resilience in the global economy. In this environment both Australian and global shares gained 8.4% and 9.9% respectively for the quarter. All sharemarket sectors, including listed real assets, saw strong gains over the period but again growth-focussed technology stocks stood out as the major market mover. The December quarter also saw bonds mirror share market movements, supported by the more dovish anticipated path for interest rates. Credit markets, both investment grade and high yield also benefited in this environment as spreads tightened. Unlisted real assets were mixed as revaluations of underlying assets impacted direct property, while infrastructure remained stable.

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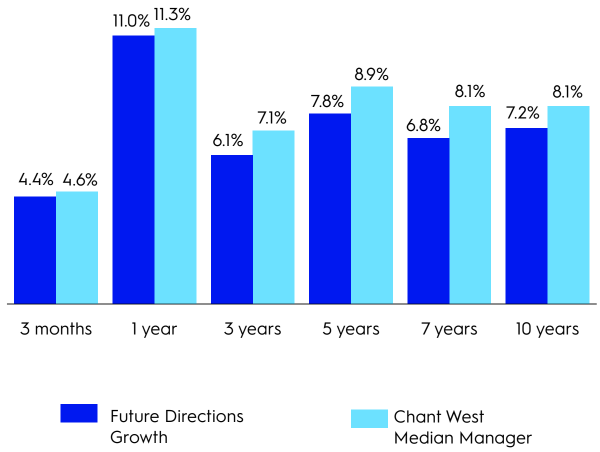

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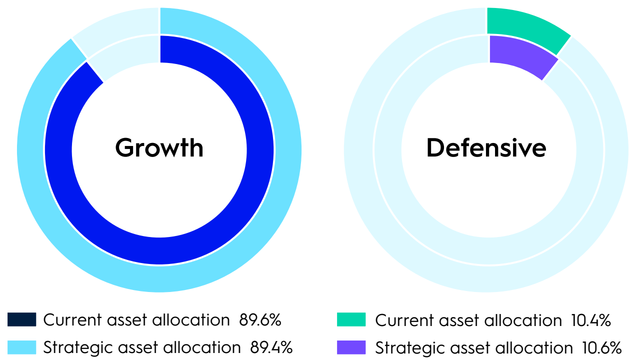
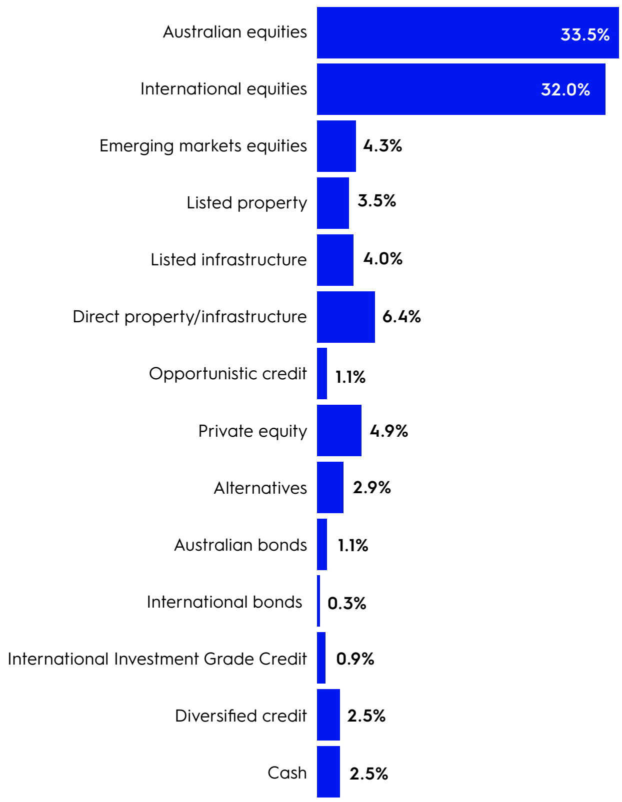
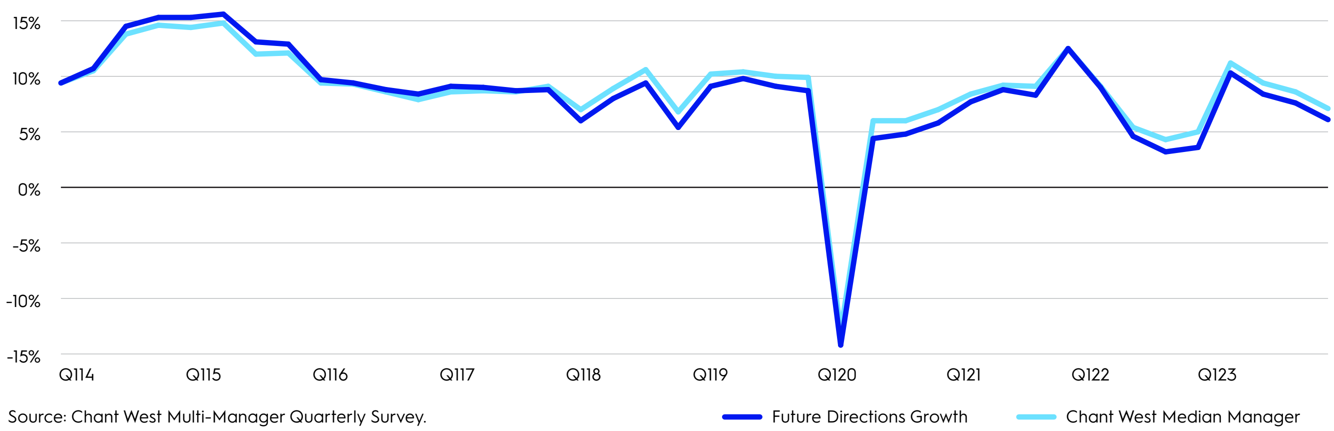




Current asset allocation as at 31 December 2023.



Source: Chant West Multi-Manager Quarterly Survey.

Future Directions
High Growth

Fund objective

To provide high returns over the long term through a diversified portfolio investing mostly in Australian and international shares with some exposure to alternative assets and property. The portfolio aims to achieve a rate of return above inflation after costs over a seven-year period.

Investor Profile

- **Standard risk measure:** 6/High
- **Suggested minimum investment timeframe:** 7 years

Performance

The Future Directions High Growth Fund returned 4.8% for the December quarter.

Quarter Highlights

Despite some bumps along the road, 2023 ended on a positive note, with both share and bond markets generating strong returns as inflation fell and markets anticipated lower interest rates. This translated well for the Fund, with both Q4 and one-year time periods generating a positive return. Additionally, the Fund outperformed its CPI objective but underperformed its strategic objectives both for the December quarter and 2023 as a whole.

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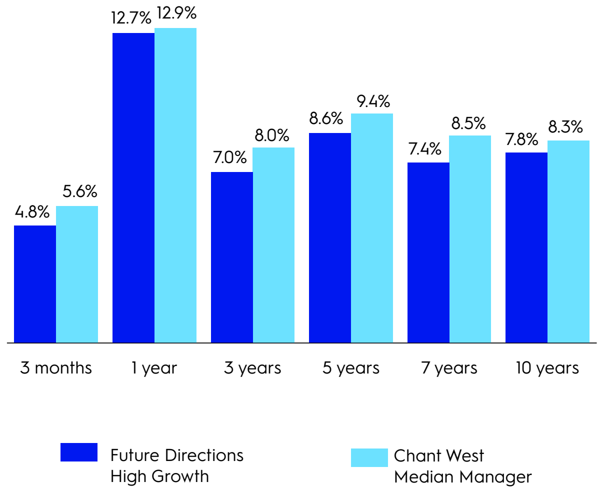

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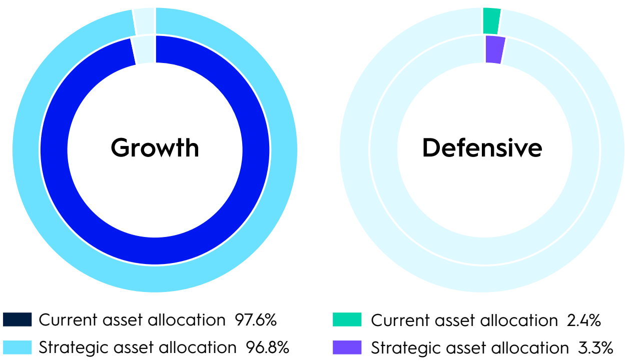
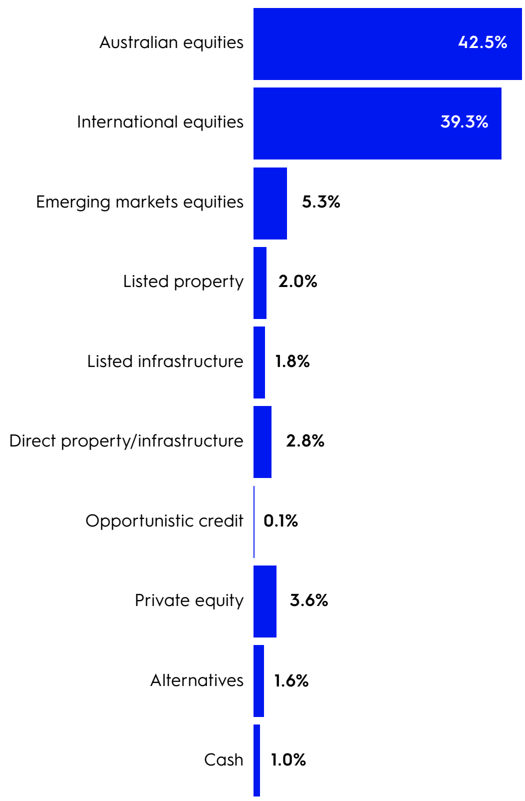
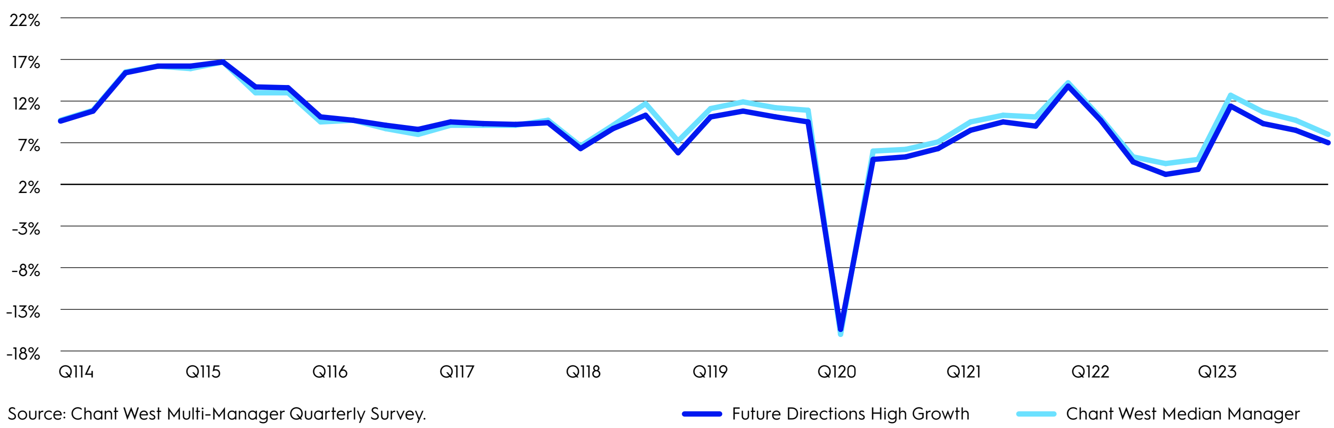




Current asset allocation as at 31 December 2023.



Source: Chant West Multi-Manager Quarterly Survey.

Meet the AMP Future Directions Management Team

Anna Shelley

Anna Shelley Anna is the Chief Investment Officer, AMP Investments and the Portfolio Manager for AMP's default Corporate Super offerings. Anna is responsible for overseeing the Group's specialised portfolio management capability. This capability includes the management of AMP's full rage of diversified portfolios. Before joining AMP, Anna was CIO of Catholic Super.

Stuart Eliot

Stuart Eliot As Head of Portfolio Management for AMP Investments, Stuart Eliot brings more than 30 years of diverse financial markets experience to the stewardship of our client's funds. Most recently he spent 12 years with Pendal Group where he was Senior Portfolio Manager, Multi-Asset Investments since 2016, and previously Portfolio Manager, Diversified Funds since 2009. In these roles Stuart was responsible for strategic and dynamic asset allocation, portfolio management and investment research, including a strong focus on responsible investing. Prior to joining Pendal, he held senior investment banking, trading and quantitative research roles, encompassing multiple asset classes, at several leading investment banks. Stuart holds a BComm
(Actuarial Studies) from Macquarie University.

Jeronimo Harrison

Jeronimo is the co-Portfolio Manager for the North Index range. He is also co-Portfolio Manager for the Future Directions, AMP Diversified, Experts' Choice and Wholesale Trust fund ranges. Jeronimo joined AMP in 2016. His responsibilities include research, risk management, portfolio construction and generating trade recommendations. Previously Jeronimo covered Australian, global and emerging markets equities across the AMP Capital single sector manager research portfolios and supported the private equity and hedge fund programs. Prior to joining AMP Capital, Jeronimo was an Investment Analyst within the AMP Group corporate venture capital fund. Jeronimo holds a double degree in Commerce (Finance) and Mechanical Engineering (Hons. Class 1) from the University of Sydney and is a CFA Charterholder.

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