

Responsible Investment Leaders High Growth

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a total return (primarily capital growth with some income) after costs and before tax, above the return from the relevant benchmarks of the underlying investments on a rolling 7 year basis through a diversified portfolio of Australian and international shares. With the exception of cash and listed property, the portfolio is managed using a Responsible Investment approach - an approach that focuses on investing in companies that contribute to a socially and environmentally sustainable world (see additional information on Responsible Investment Leaders for more information).

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Multi-Sector
Suggested minimum investment timeframe	7 years
Relative risk rating	High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Shares	51
International shares	45
Growth Alternatives	4
Cash	0
Actual Allocation	%
International Shares	50.11
Australian Shares	46.79
Cash	3.10

Fund Performance

The Fund produced a strong positive return over the September quarter, boosted by further global monetary policy easing. However, it underperformed its benchmark index, mainly due to the underperformance of the Australian shares allocation.

The international shares allocation slightly outperformed its benchmark over the quarter. Lazard, C Worldwide and the emerging markets allocation all outperformed their respective benchmarks. Stock selection was the key positive contributor to relative returns, with positions in both emerging market stocks and developed markets stocks adding value. Asset allocation detracted moderately from relative returns, with an overweight allocation to emerging markets the main detractor.

The Australian shares allocation moderately underperformed its benchmark over the quarter, despite outperformance from Bennelong and DNR. The ESG index allocation modestly underperformed the broader share market index over the quarter but continues to outperform over the year. Sector allocation was the main detractor from relative returns, particularly an underweight allocation to consumer staples. Stock selection contributed positively to relative returns, with positions in real estate and communication services adding the most value.

Underlying manager engagement included: talking to Australian companies about the impact of the Modern Slavery Act; continued focus on climate change and green projects; further work with the Access to Nutrition Index investor group; joining a collaboration to strengthen controls to prevent live streaming and distribution of objectionable content; addressing issues with executive remuneration and board composition; and reporting on progress to improve access to medicine.

Environmental Social Governance

Many companies are talking with AMP Capital's ESG research team about the changes they have made to their remuneration for executives. Our approach to reviewing executive remuneration hasn't changed considerably over recent years. The team expects that there will be more shareholder resolutions concerning human rights and we will consider these on a case-by-case basis. Climate change risk and scenario testing will also be a key focus this proxy-voting season.

Ausbil engaged with JB Hi-Fi's management on what practical steps they are taking to prepare themselves for the Modern Slavery Act, given that consumer electronics is a hot spot for labour-rights issues. Ausbil also participated in a roundtable discussion with commissioners from the Australian Electricity Market Commission (AEMC) which focussed on investor views about climate change, for example, how to invest in the transition to a decarbonised world and required policy changes.

Market Review

International shares climbed higher over the September quarter, with the MSCI World ex-Australia index rising 1.50%. Share markets started the quarter positively, amid generally good US corporate earnings and hopes of a favourable US-China trade outcome. However, in August a pull-back occurred and some volatility emerged due to increasing speculation about the sustainability of global (and particularly US) economic growth. Mixed messages on monetary policy from the US Federal Reserve also didn't help. Share markets then recovered to higher levels in September as volatility continued. Drivers included central bank interest rate reductions (as the US Federal Reserve reduced the Federal Funds Rate range by a further 0.25% to 1.75-2.0%), a drone strike in Saudi Arabia by Iranian-backed Houthi rebels, as well as some small but positive US-China trade developments.

Australian shares also rose over the September quarter, with the S&P/ASX200 total return index gaining 2.37% and record-highs hit during the period. The market was buoyed by the Reserve Bank of Australia cutting official interest rates and solid rises in international share markets. Some positive indications from the Melbourne and Sydney housing markets, which have undergone a significant correction over the past two years, also helped domestic sentiment, given the Australian economy's very large exposure to housing.

Outlook

Moving into the final quarter of 2019 we remain optimistically cautious, as global markets face a variety of unpredictable situations. Continued concerns around the US-China trade tensions for example, or a no-deal Brexit, may compound slowing global growth, increasing the risk of recession and restraining share market returns. While a combination of monetary policy easing and Chinese policy stimulus could somewhat offset these concerns, a resolution in the trade dispute and an improvement in global growth appears necessary for sustained returns going forward.

Given this backdrop, we continue to hold a broadly neutral exposure to shares overall, with a preference for international shares given the higher growth potential overseas over the medium term.

Availability

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