

Macquarie Balanced Growth

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To outperform the Macquarie Balanced Growth Structured Benchmark over the medium term (before fees). The portfolio aims to return a balanced level of growth and income. The option provides exposure to a diversified portfolio of growth assets, including equities and alternative assets, with some exposure to cash and fixed interest. The option employs an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	3.5
Strategic Income*	9.0	8.7
Australian Fixed Interest	17.5	5.7
Global Fixed Interest	7.5	13.2
Inflation Linked Bonds	5.0	3.8
Australian Equities	26.0	30.2
Global Developed Markets	13.5	21.0
Global Emerging Markets Equities	12.0	9.9
Alternative Assets**	8.0	4.0

* Invests predominantly in high quality Australian and global credit securities

** may include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Performance

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

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	Medium
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

To restate the summary from last quarter: 'despite deteriorating macroeconomic fundamentals global central banks have pivoted to deliver a second (third) consecutive quarter of strong positive returns to investors'. Last quarter Macquarie noted that many central banks had moved a full circle and were now either easing or poised to ease monetary policy in the months ahead. Indeed, during Q3 the US Federal Reserve (Fed) (twice), the European Central Bank, both the Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (by 0.50%) and several emerging market central banks cut rates. The backdrop in recent quarters has been slowing global growth, though contrasting between the weak manufacturing sector and resilient consumer and labour market. This environment persisted through the recent quarter, where the global manufacturing sector is either in or near recession and the warning signs are that this is beginning to drag on the broader economy. This picture is underpinning the continued fall in global bond yields.

In contrast, risk markets are broadly stable or grinding tighter in spread terms. Risk markets are not embracing the higher recession probability that is embedded into government bond yields and yield curves. In fact, risk markets are experiencing two conflicting signals; on one hand, lower rates help to support equity prices through PE expansion, while on the other, declining corporate fundamentals through negative EPS growth will further limit the upside risk from equities, especially considering the rich valuations at present.

In the Fund's strategic income allocation, exposure was modestly increased as Macquarie witnessed the global pivot by central banks through 2019. While they are sceptical on how much benefit economic growth will receive from easier monetary policy, they expect the dovish shift to be supportive for credit spreads. That said, the Fund's credit positioning has reflected Macquarie's concern at the deterioration in the global macro environment, which is evident in a bias for defensive, non-cyclical sectors and in name selection. In addition, geographical exposure reflects a bias to the US, which continues to outperform on growth differentials, and underweight countries most vulnerable to trade and cycle weakness.

In global duration and equities, the dichotomy between bond and risk markets is challenging for Fund positioning. During 2019, having entered the year with significant duration exposure, the Fund's positioning was gradually trimmed as the rally in global bond yields persisted. The modest back up in yields during September gave the opportunity to slightly add back some duration exposure. While global bond yields are close to historic lows, Macquarie do not fear duration as they do not fear inflation, where the structural forces of debt, demographics, digitalisation and more recently de-globalisation are overwhelming the shorter-term cyclical forces. Macquarie continue to believe in the theme 'lower for longer'. In equities, given the geopolitical backdrop, declining macro outlook and corporate fundamentals, Macquarie have trimmed their equities allocation. However, they continue to look out for emerging opportunities in equity markets should valuations meaningfully adjust.

The Fund outperformed the benchmark in the September quarter. In asset allocation, the Fund held an overweight bias in strategic income, international equities and Australian equities, while global and Australian fixed income were below their strategic weights.

Outlook

Growth continues to disappoint, and central bank and fiscal stimulus has fallen short of market expectations. However, pricing is still skewed to lower rates and more stimulus and hence duration and equity risk is still symmetric depending on market perceptions of future growth and stimulus.

US-China trade talks have still not concluded, and neither have Brexit negotiations, leaving the market with some significant points of uncertainty. Whilst the Chinese response so far has been to increase stimulus this has not alleviated concerns, and with major central banks running out of ammunition a key risk continues to be Europe falling into a recession. Macquarie also expect markets will continue to be volatile in response to the geopolitical noise. They have reduced the Fund's overall exposure to risk assets and will invest opportunistically should valuations improve meaningfully.

Availability

Product name	APIR
SignatureSuper	AMP0958AU#
AMP Flexible Lifetime Super	AMP0706AU#
CustomSuper	AMP0706AU#

Closed to new members

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