

ipac Income Generator

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide regular income with some capital growth over rolling 5 year periods, whilst also maintaining moderate levels of capital stability. The portfolio uses a range of specialist investment managers to invest in a diversified mix of income-producing assets, including traditional income-generating investments like fixed interest and growth assets like equities (particularly Australian shares that generally pay higher dividends and can provide franking credits).

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	5 years
Relative risk rating	Medium to High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Fixed Interest	N/A
Australian Shares	N/A
Cash	N/A
International Fixed Interest	N/A
International shares	N/A
Listed Property and Infrastructure	N/A

Actual Allocation	%
International Shares	18.28
Australian Shares	38.19
Australian Fixed Interest	43.48
Cash	0.04

Fund Performance

The Fund had a strong year of performance, although fourth quarter total returns were largely flat after a poor December for most Australian markets. Stand out contributions over the year came from global listed infrastructure, with total returns of over 25% and Australian shares, where the market returned over 23%. Income stocks marginally underperformed for the year, while growth stocks drove the lion's share of returns through valuation-expansion. The banking sector underperformed over the fourth quarter as the regulator focused on poor conduct and money laundering issues, whilst earnings continued to fall amid lower interest rates. Three interest rate cuts and one tax cut over the year more than compensated however, supporting valuation, but not yet driving earnings higher.

Portfolio Positioning

There were no major changes to the portfolio over the quarter. New stock positions have been initiated in Ingham's chicken, and GUD Holdings in Australia, while internationally we have seen new positions added in Comcast and Fortis. The community infrastructure (Commif) portfolio has also been very active, with new acquisitions pending in windfarms, schools, and correctional facilities. Commif remains on track to deliver yields in excess of 8%.

Market Review

The start of the quarter saw initial concerns of the risk of a recession. However, as the quarter progressed, US economic data was generally positive overall. Market sentiment further improved following the conclusion of the US-China trade disputes. US gross domestic product grew at an annualised rate of 1.9% in the third quarter. In October, the Federal Funds Rate was reduced by 25 basis points to 1.50-1.75%. Meanwhile President Trump's impeachment had little impact on financial markets.

In Europe, business conditions were flat in December but remain up from their low adding to confidence that Eurozone growth may be improving. During the quarter, the European Central Bank made no changes to interest rates. Meanwhile, in December the Swedish central bank raised rates from -0.25% to zero, ending roughly five years of negative rates.

In the UK, the Conservative party won the general election and will seek to prevent an extension of the Brexit transition period beyond the end of 2020. During the quarter, the Bank of England left rates on hold.

In Asia, Japan's gross domestic product growth for the September quarter was revised upward. The government announced fiscal stimulus plans in December whilst the Bank of Japan left monetary policy on hold. In China, industrial production and retail sales were stronger-than-expected in November suggesting positive signs for growth. China's central bank lowered its one-year loan prime rate in November by five basis points to 4.15%.

Outlook

Some progress in trade negotiations, and tentatively better economic data have reassured markets that growth is on track for a 'mid cycle' rebound. Low interest rates and increasingly, talk of fiscal stimulus, are also crucial to maintaining that confidence, as markets wait for earnings to improve. Despite clearly higher absolute valuations and some negative earnings downgrades in Australia and Internationally, we are still seeing very solid yields and, in many cases, improving dividend outlooks. The Fund's income remains quite strong in Australia, with franked yields in excess of 6.5% and internationally of close to 4.2%. The benefit from franking alone at present (at around 1.4%) is well above the Australian 10-year bond yield. The Fund remains on track to achieve this financial year's target income levels and to keep income growth above the rate of inflation.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1708AU
AMP Flexible Super - Retirement account	AMP1763AU
AMP Flexible Super - Super account	AMP1755AU
CustomSuper	AMP1708AU
Flexible Lifetime - Allocated Pension	AMP1716AU
SignatureSuper	AMP1735AU
SignatureSuper - Allocated Pension	AMP1742AU

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