

# Responsible Investment Leaders Balanced

Quarterly Investment Option Update

31 December 2019

## Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the relevant benchmarks of the underlying investments on a rolling five-year basis and to provide a rate of return of 3.5% above inflation (Consumer Price Index (CPI)), after costs and before tax, over a 5 year period. The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash, the portfolio is managed using a responsible investment approach (see additional information about Responsible Investment Leaders for more information).

## Investment Option Performance

To view the latest investment performances for each product, please visit [www.amp.com.au](http://www.amp.com.au)

## Investment Option Overview

|   |                |
|---|----------------|
| <b>Investment category</b>                    | Multi-Sector   |
| <b>Suggested minimum investment timeframe</b> | 5 years        |
| <b>Relative risk rating</b>                   | Medium to High |
| <b>Investment style</b>                       | Active         |
| <b>Manager style</b>                          | Multi-manager  |

| Asset Allocation                     | Benchmark (%) |
|--------------------------------------|---------------|
| International shares                 | 33            |
| Australian Shares                    | 25            |
| Australian Fixed Interest            | 13            |
| International Fixed Interest         | 12            |
| Unlisted Property and Infrastructure | 9             |
| Listed Property and Infrastructure   | 4             |
| Cash                                 | 2             |
| Growth Alternatives                  | 2             |

| Actual Allocation                    | %     |
|--------------------------------------|-------|
| International Shares                 | 33.28 |
| Australian Shares                    | 25.08 |
| Listed Property and Infrastructure   | 3.79  |
| Unlisted Property and Infrastructure | 7.74  |
| Growth Alternatives                  | 1.48  |
| International Fixed Interest         | 11.16 |
| Australian Fixed Interest            | 11.71 |
| Cash                                 | 5.76  |

## Fund Performance

The Fund maintained its strong run of performance in the December quarter, capping a stellar 2019. Over the quarter, returns were driven by strong gains in equity markets. Generally positive global economic data releases, a 'phase one' trade deal between the U.S. and China, and a continuation of low interest rates boosted investor sentiment. Relative performance continues to improve and is now in line with the benchmark across most time periods.

At a sector level, our Australian equity allocation produced a strong return over the quarter, outperforming the ASX 200 by 230bps as all underlying active managers outperformed. Stock selection within the financials, materials and energy sectors were the strongest contributors to performance. This was partially offset by weak stock selection in the industrials sector. Our ESG index exposure underperformed over the quarter.

Our international shares allocation provided the largest contribution to overall returns. The sector performed roughly in line with the benchmark for the period. Stock selection was the main contributor to performance, particularly within industrials. This was partially offset by weak stock selection with the information technology and energy sectors. At the manager level, Lazard outperformed the sector benchmark, whilst Boston Partners, the Ethical Leaders Emerging Markets Fund and C Worldwide underperformed. The overweight to emerging markets was a contributor as emerging markets outperformed developed markets over the quarter.

The diversified fixed income allocation ended the quarter slightly lower, giving up some of the strong gains generated over the year as markets shifted to a more 'risk-on' environment'. Similarly, after three strong quarters, global REITS gave up some of their recent gains as bond yields rallied. Our allocation to community infrastructure also continues to be a contributor to returns, with strong performances year-to-date, whilst providing a diversifying source of returns from listed markets.

## Environmental Social Governance

Through AMP Capital's Climate Action 100+ collaboration activities and direct company engagements, we had a number of highly constructive meetings in the fourth quarter to push forward improvements in each of the following four key areas: industry association memberships, Kyoto carryover credits, Task Force on Climate-related Financial Disclosures reporting especially scenario analysis, and emissions reduction commitments aligned to The Paris Agreement goals.

During the quarter, Ausbil was involved in a number of industry engagement opportunities on climate change, modern slavery and human rights. On climate change this included engagement with the Minerals Council of Australia and a presentation at the Responsible Steel Forum II. On modern slavery and human rights this included co-authoring investor guidance on the Modern Slavery Act, along with presentations at the Freedom for Humanity and Women in Business (CARE Regional Conference in Cambodia) events, and signing an investor statement on forced labour risks in global supply chains.

## Market Review

Global share markets were up significantly over the December quarter, with the MSCI World ex Australia index finishing the period up by 7.66%. Drivers included strong US corporate earnings, the announcement of a "phase one" trade deal between China and the US in December, prevailing stimulatory central bank policies around the globe and an emphatic election result in the UK (leading to an apparent resolution to ongoing Brexit delays). Against a backdrop of a solid US economy with generationally low unemployment, these factors combined to spur optimistic investor sentiment around the globe. Indices that were notably strong included the US S&P 500 (up by 9.07%), the Chinese S&P/CITIC300 (up by 7.13%) the European DJ Euro STOXX 50 (up by 5.35%) and the German DAX (up by 6.61%). Emerging markets, meanwhile, produced some of the strongest returns of all; the MSCI Emerging Markets index finishing the quarter up by 9.54% on improving trade relations between China and the US, strong commodity prices and broader positive market-sentiment. (All indices quoted in local currency terms and on a total-return basis, unless otherwise stated.) Australian shares meanwhile finished the December quarter slightly higher, returning 0.68% as measured by the S&P/ASX200 index on a total return basis. Stripping the effect of dividends out of the return, the market's performance was effectively flat for the period. Shares were generally flat early in the quarter, before rising in November amid bullish broader global sentiment. Subsequently, the market gave up some of these gains in December on a lack of material company news and some end-of-year profit taking.

Global government bond yields trended higher for the majority of the December quarter, with markets buoyed by optimism stemming from improving trade relations between the US and China which could lead to a resolution of

their long running trade dispute, while risk of a hard Brexit in the UK was reduced in December following the resounding re-election of Prime Minister Johnson's Conservative party. In a period where markets experienced bouts of volatility, global central banks continued to provide stimulatory monetary conditions, with the US Federal Reserve cutting the Federal Funds Rate earlier in the quarter by a further 25 basis points to 1.50-1.75%. However, the central bank did signal a pause in their interest rate easing cycle, with any future accommodative moves to be considered in light of the influence of economic data. The global economic backdrop was further supported later in the period by improving data in the major global economies such as China, which provided further tentative evidence of a global economic upturn. Australian government bond yields also moved higher over the course of the December quarter, aided primarily by the reduction of key geopolitical risks relating to US-China trade and Brexit.

## Outlook

We remain cautiously optimistic for the start of 2020. Stabilising global growth and easy monetary conditions should see reasonable equity returns, but they may be more modest than 2019, as valuations are less supportive and ongoing geopolitical risks over Iran, the China/US trade deal and Brexit are likely to cause increased volatility. In Australia, it is still early days to fully evaluate the impact of the devastating bushfires on the Australian economy, but we expect domestic growth in the near term will be negatively impacted. Whilst a combination of global monetary policy easing and fiscal stimulus could somewhat offset these concerns, further improvements in US/China trade relations and a consistent improvement in global economic data remains necessary for sustained returns going forward

Given the current environment and outlook, we hold a broadly neutral allocation across equities. We maintain meaningful positions in alternatives, property and infrastructure, which serve to diversify risk and may support portfolio growth in the event of equity market declines. We also maintain a neutral allocation to fixed income, as the low interest rate setting supports fixed income markets despite valuations remaining historically high.

## Availability

| Product Name                               | APIR       |
|--|------------|
| AMP Flexible Lifetime Super                | AMP1033AU  |
| AMP Flexible Super - Retirement account    | AMP1371AU  |
| AMP Flexible Super - Super account         | AMP1500AU  |
| CustomSuper                                | AMP1033AU  |
| Flexible Lifetime - Allocated Pension      | AMP1022AU  |
| Flexible Lifetime - Investments (Series 1) | AMP1056AU* |
| Flexible Lifetime - Investments (Series 2) | AMP1434AU  |
| Flexible Lifetime - Term Pension           | AMP1043AU  |
| SignatureSuper                             | AMP0977AU  |
| SignatureSuper - Allocated Pension         | AMP1173AU  |
| SuperLeader                                | AMP1884AU  |

\*Closed to new investors

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