

Responsible Investment Leaders Growth

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. The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash and listed property, 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

Investment Option Overview

Investment category	Multi-Sector
Suggested minimum investment timeframe	5 - 7 years
Relative risk rating	High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International shares	42
Australian Shares	36
Listed Property and Infrastructure	6
International Fixed Interest	5
Australian Fixed Interest	4
Unlisted Property and Infrastructure	3
Cash	2
Growth Alternatives	2

Actual Allocation	%
International Shares	42.90
Australian Shares	35.40
Listed Property and Infrastructure	7.46
Unlisted Property and Infrastructure	2.42
International Fixed Interest	6.06
Australian Fixed Interest	4.94
Cash	0.82

Fund Performance

The Fund maintained its strong run of performance over the December quarter, outperforming its benchmark and capping a stellar 2019. Over the period, returns were driven by strong gains in global share markets. The Fund has outperformed over the longer term, including over 1, 2, 3 and 7 years, and since inception (annualised, before fees).

The international shares allocation provided the largest contribution to overall performance, but slightly underperformed its benchmark over the quarter. Stock selection was the key driver of relative returns, with positions in industrials the main positive contributors, but outweighed by positions in information technology and energy which were the main detractors. An overweight allocation to emerging markets was a significant contributor to relative returns as emerging share markets outperformed developed share markets over the period. Of the four underlying managers, Lazard outperformed its benchmark, while the others underperformed their respective benchmarks.

The Australian share allocation produced a strong return, outperforming its benchmark over the quarter. Stock selection was again the key driver, with positions in financials, materials and energy very strong contributors to relative returns, only partially offset by positions in industrials which detracted modestly. All of the underlying managers outperformed the benchmark, although the ESG Index exposure underperformed over the period.

The diversified fixed income allocation declined modestly over the quarter, giving up some of its healthy gains over the year as investor sentiment shifted to be more 'risk-on'. Similarly, the global listed property allocation fell after a very strong year. Despite these declines, both allocations slightly outperformed their respective benchmarks over the quarter. The allocation to infrastructure also rose.

Climate change continued to dominate underlying manager engagement and will likely ramp up in 2020. This included pushing forward improvements in industry association membership, Kyoto carryover credits, Task Force on Climate-related Disclosures reporting, and emissions reduction commitments aligned to The Paris Agreement goals.

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. Drivers included strong US corporate earnings, the announcement of a 'phase one' US-China trade deal, prevailing stimulatory central bank policies 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. Emerging markets produced some of the strongest returns due to improving trade relations between China and the US, strong commodity prices and broader positive market-sentiment.

Australian shares finished the December quarter slightly higher, but stripping the effect of dividends, the performance was effectively flat. 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, buoyed by optimism stemming from improving trade relations between the US and China, and a reduction in the risk of a hard Brexit following the resounding re-election of UK Prime Minister Johnson's Conservative party. In a period where markets experienced bouts of volatility, global central banks continued to provide stimulatory monetary conditions, The US Federal Reserve cut the Federal Funds Rate by a further 25 basis points to 1.50-1.75%, although it did signal a

pause in their interest rate easing cycle, with any future accommodative moves to be considered in light of economic conditions. The global economic backdrop was further supported later in the period by improving data from 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 in the key geopolitical risks relating to US-China trade and Brexit.

Outlook

We remain cautiously optimistic for the start of 2020. Stabilising global economic growth and accommodative monetary conditions should see reasonable global share market returns, but they may be more modest than in 2019. Ongoing geopolitical risks from Iran, US-China trade relations and Brexit are likely to cause volatility. While it is still too early to fully evaluate the impact of the devastating bushfires on the Australian economy, we expect growth to be negatively impacted over the near term. While a combination of accommodative global monetary conditions and fiscal stimulus could somewhat offset this, further improvements in US-China trade relations and a consistent improvement in global economic data remain necessary for sustained Australian share market returns going forward.

Given this environment and outlook, we continue to hold a slightly underweight allocation to shares overall, as markets appear to be at stretched levels. We also hold meaningful positions in fixed income, international listed property and infrastructure to diversify risk and support portfolio growth in the event of share market declines.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1035AU
AMP Flexible Super - Retirement account	AMP1373AU
AMP Flexible Super - Super account	AMP1502AU
CustomSuper	AMP1035AU
Flexible Lifetime - Allocated Pension	AMP1024AU
Flexible Lifetime - Investments (Series 1)	AMP1058AU*
Flexible Lifetime - Investments (Series 2)	AMP1436AU
Flexible Lifetime - Term Pension	AMP1045AU
SignatureSuper	AMP0979AU
SignatureSuper - Allocated Pension	AMP1175AU

*Closed to new investors

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