AMP Balanced Growth

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

To provide moderate to high returns over the medium to long term through a portfolio diversified across the main asset classes, but with an emphasis on shares and property.

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 (%)
International shares	33
Australian Shares	27
Listed Property and Infrastructure	11
Australian Fixed Interest	10
International Fixed Interest	8
Growth Alternatives	6
Cash	2.5
Defensive Alternatives	2.5

Actual Allocation	%
International Shares	34.24
Australian Shares	26.74
Listed Property and Infrastructure	7.45
International Fixed Interest	7.72
Australian Fixed Interest	11.03
Defensive Alternatives	5.26
Others	0.04
Cash	7.52

Fund Performance

The option delivered a negative return for the first quarter of 2020 as the world economy was brought to a standstill by the COVID-19 pandemic. Despite diversification lessening the impact on returns, the swiftness and severity of share market falls all but erased returns generated in 2019. Compared to peers, the option has maintained its strong relative performance, remaining ahead of median across most key timeframes.

This year began with concerns ranging from domestic environmental catastrophes to COVID-19 and its dramatic disruption of global supply chains, geo-politics, employment and economic activity. As infection rates and the number of countries impacted increased exponentially, the disease evolved from a primarily China-centric issue to a global phenomenon that has drastically hampered economic performance around the world and may serve as a catalyst for recession. Defensive assets, such as government bonds and cash benefitted from this environment as investors rotated towards safety. Similarly, assets such as direct property and infrastructure, which are infrequently traded, remained less sensitive to market moves and reduced overall portfolio volatility. However, risk assets experienced extreme volatility due to tight liquidity conditions and the economic devastation caused by COVID-19, which in turn, dominated overall performance. Despite an unprecedented and co-ordinated effort by global governments and central banks to stabilise and stimulate their economies through large fiscal packages, further rate cuts and quantitative easing, both developed and emerging market shares fell 20% and 19% respectively (in local currencies terms) and Australian shares followed suit.

With the severity and duration of the pandemic unclear, the outlook for 2020 is challenged and returns are likely to remain volatile in the months ahead. Given this, we hold a broadly neutral growth/defensive asset split, with a view to shift into more defensive allocations should the environment worsen. The option also continues to hold a diverse exposure to alternatives, such as direct property and hedge funds, to help manage risk and smooth returns in periods of share market volatility. It is important for members to remember that these market shocks do not last forever and to remain focussed on the long term.

Market Review

The first quarter of 2020 began with the renewed conflicts between the US and Iran and the US-China trade tensions which were later resolved and share markets were encouraged by initial signs the global economy was improving. However, as March approached, the global surge in COVID-19 cases outside of China led to a pandemic. At the end of the quarter, despite the continued rise in new COVID-19 cases (especially in the US and Italy) and signs of a slowdown in global economic activity, share markets had a strong rebound in response to further announcements of unprecedented stimulus measures by governments and central banks.

The Federal Reserve reduced interest rates by a further 100 basis points to 0.00%–0.25% and commenced its quantitative easing. The US government announced the largest fiscal package, worth $US2 trillion. The Bank of Canada lowered its overnight rate target to 0.75% and launched a credit facility program.

In Europe, the UK officially left the European Union on 31 January. The European Central Bank launched a new Pandemic Emergency Purchase Programme, worth €750 billion. The Bank of England lowered its Bank Rate further and launched a new substantial quantitative easing program whilst the UK government announced it credit guarantees.

In Asia, China's central bank announced a reduction in reserve ratios for banks. The Bank of Japan provided a significant liquidity injection and expanded its quantitative easing program.

Availability

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