ipac Income Generator

Quarterly Investment Option Update

31 March 2020

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	17.99
Australian Shares	32.39
Australian Fixed Interest	49.62
Cash	0.00

Fund Performance

Over the first quarter, the Fund was sharply negative as broader markets fell heavily amid COVID-19 related panic. While the market correction has impacted the portfolio value over the short term, importantly, the monthly income amount continues to be paid to investors during the volatility. In regard to the virus, containment seems to be working and medical solutions appear promising, however the extent of the economic damage is yet to unfold. The second quarter should reveal the extent of the impact.

Portfolio Positioning

There were no major changes to the portfolio over the quarter. The Fund's asset allocation remains roughly split between Australian corporate bonds (at around 48%), infrastructure (at around 9%) and equities (at around 43%). Within the equities component, the largest exposure is to the Australian market, given the additional and substantial advantage of franking credits, where yield is enhanced typically by around 30% for retirees and other zero-tax payers.

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.

Outlook

As we approach the end of financial year, thoughts turn to what the impact on income production will be from the current downturn. Whilst events are still unfolding, we can assume equities will see some short-term dividend reductions. If we assume a 50% cut in earnings on average (historically, we've seen 30-40% earnings reduction in recessions), this could translate to perhaps a 25% cut in dividends. We expect a market dividend-cut of this degree of cut could flow through to the Fund's income estimate being slightly reduced (perhaps by less than 0.5%) in the next financial year. Relative to the fall in interest rates and bond yields, this would still represent a strong comparative improvement on fixed income or term deposit options.

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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