ipac Income Generator

Quarterly Investment Option Update

30 June 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	18.86
Australian Shares	37.24
Australian Fixed Interest	43.89
Cash	0.01

Fund Performance

The portfolio produced another strong, positive return over the quarter, as global and Australian equity markets continued their remarkable rally from the March lows. Australian equity markets returned over 16% for the quarter and the Fund's Australian income focused strategies performed slightly above the market. At the same time, dividend deferrals and cancellations created a drag on realised income in the final quarter of the financial year. Our underlying allocation to Epoch underperformed the market over the period, where the rally has been led by low-yielding technology and growth stocks. Listed infrastructure stocks surprisingly performed quite poorly towards the end of the quarter.

Portfolio Positioning

There were no major changes to asset allocation in portfolio in the June quarter. Stock preference continued to move towards those considered to have more secure dividends in Australia, including names such as Coles, Aurizon and Medibank.

Market Review

As expected, global markets were heavily impacted by COVID-19 government restrictions and the flow-on effects of lockdown. Equities were volatile as shifting sentiment created swings between a risk-on and risk-off bias. Despite this, there was a net sharp rally over the quarter in equity markets as some COVID-19 lockdown measures started to be unwound. This leaves equity markets open to the risk of a correction. COVID-19 impacts were aggravated by increasingly acrimonious relations between the US and China. In addition, there is the risk of further waves of COVID-19, especially in the more densely populated countries, and the potential for economies to fall back once working capital supplied by government policies peters out and companies review their strategies and demand. The World Bank, the Organisation for Economic Co-operation and Development, and the International Monetary Fund all indicate they expect the worst global recession since the Great Depression.

In the US, the Federal Reserve (Fed) significantly increased its COVID-19-related lending programmes. Fed Chairman Jerome Powell suggested the central bank will use its "full range of tools" and act "forcefully, proactively and aggressively until it is confident the economy is on the road to recovery". He also said the central bank still had plenty of options available, with the expectation that monthly bond purchases will increase.

Outlook

We believe the outlook deserves some caution. It has been clear for a while that the virus is likely to linger until medical solutions are developed, or it mutates away. Therefore, policy support will likely be required beyond current deadlines, that in Australia occur around the end of September. Dividend payments remain highly uncertain for many Australian stocks, with the banking sector showing the least clarity. Cash dividend yields in Australia have dropped to around 3.3% (4.4% gross) as at 30 June, down from approximately 4.5% at the same time last year. Despite softer headline total returns, certain areas of the market remain relatively attractive to us due to their cashflows and yields. However, given the overall lower yields and higher levels of uncertainty in the outlook, we expect to reset our income targets to a range of 3.8%-4.0% for the next 6 months and then review these mid-year. This is a precautionary departure from our normal policy (of providing these 12 months in advance), but reflects the reality of the market at present.

Availability

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

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