Macquarie Balanced Growth

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To outperform the Macquarie Balanced Growth Structured Benchmark over the medium term (before fees). The portfolio aims to return a balanced level of growth and income. The option provides exposure to a diversified portfolio of growth assets, including equities and alternative assets, with some exposure to cash and fixed interest. The option employs an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	14.6
Strategic Income*	9.0	10.4
Australian Fixed Interest	17.5	10.6
Global Fixed Interest	7.5	9.1
Inflation Linked Bonds	5.0	3.7
Australian Equities	26.0	24.1
Global Developed Markets	13.5	13.5
Global Emerging Markets Equities	12.0	6.8
Alternative Assets**	8.0	7.2

* Invests predominantly in high quality Australian and global credit securities
** may include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	5/ Medium to high
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The asset allocation in the Investment Option maintained a defensive stance with a higher allocation to income sectors and a lower allocation to growth sectors. Equity markets in Q2 were driven by divergent themes, with the continued growth in COVID-19 cases on one hand and optimism associated with the economic re-opening and unprecedented amounts of monetary and fiscal support on the other. Market sentiment continued to improve, particularly in the US, with most states partially re-opening their economies despite new COVID-19 cases reaching all-time highs in certain states towards the end of the quarter. In our view, the premature re-opening of some economies can impact not only the longevity of the economic impact, but also the severity of the economic downturn. While the market acknowledged the more immediate impacts of the economic shutdown, it has not yet considered a secondary localised 'lockdown' as well as a slow recovery due to the psychological sense of danger.

The Investment Option outperformed the benchmark in the June quarter (gross of fees). In terms of positioning, the strategy held an overweight bias in strategic income, while global and Australian equities were below their strategic weights.

Outlook

Follow the money or focus on the fundamentals? This is and will be an ongoing debate for portfolio managers. Central banks, learning from their experience in 2008-09, have responded quickly and in size to the problems posed by the virus pandemic. The narrative from central banks has emphasised the outlook uncertainty, the risks to growth and are maintaining a strong commitment to 'doing whatever it takes'. Investors, having witnessed this action in the wake of the Global Corona Crisis, have followed the money and credit spreads have contracted sharply. The deflationary shock from lockdowns has pushed bond yields lower across the globe. Central banks' commitment to keeping rates low (or even lower in some cases) for an extended period and discussions about engaging in yield curve control are combining to keep bond yields low despite the euphoria in risk assets.

As we enter the second half of the year, we need to consider the likely environment, barring the emergence of a vaccine. We assume that the hurdle for countries to re-impose lockdowns is expected to be high, but it seems very likely that the new social distancing environment will persist. This environment will pose ongoing challenges for certain sectors and companies, particularly in services, where survival is not a certainty. Here, both the top down analysis and the bottom up sector and company analysis will play an important role in the security selection process.

For the broader economy, we are monitoring the mobility data but are paying more attention to actual spending data as this provides real information on demand. High frequency data is showing that demand has bounced since countries re-opened, but that spending has concentrated on food while non-food purchases remain very weak. In addition, government support to furloughed and unemployed workers is masking the risk to income and many of these temporary support measures are due to roll off or being reviewed in the coming months. We are also monitoring supply chains, which have been severely disrupted by the pandemic, evidenced by the plunge in global trade.

Geopolitical risks have escalated as a result of the pandemic and the US presidential election now looms on the horizon. Elsewhere, we are monitoring the approach to fiscal policy where moves to shun the return of austerity (as the UK government has done) and turn support into stimulus would have important implications for the shape of recovery that will ultimately unfold.

This uncertain outlook has encouraged us to resist the psychological pressure from following the recent rally and maintain a cautious path, where additions to credit exposure reflect a bias for quality. We believe there will be ample time to participate in opportunities and will remain prudent and patient as the situation continues to evolve.

Availability

Product name	APIR
SignatureSuper	AMP0958AU#
AMP Flexible Lifetime Super	AMP0706AU#

Closed to new members

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