Macquarie Balanced Growth

Quarterly Investment Option Update

31 March 2021

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	10.3
Strategic Income*	9.0	10.2
Australian Fixed Interest	17.5	9.6
Global Fixed Interest	7.5	8.3
Inflation Linked Bonds	5.0	3.5
Australian Equities	26.0	33.3
Global Developed Markets	13.5	12.7
Global Emerging Markets Equities	12.0	5.4
Alternative Assets**	8.0	6.7

* 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/performance

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The Fund delivered a positive return in the March quarter, with the exposure to Australian and international growth assets contributing to performance. From an asset allocation standpoint, the Fund has been positioned moderately growth orientated assets in light of the interplay between the declining fundamentals and ultra-loose monetary easing.

Twelve months after COVID-19 became a global pandemic, the world's international travel industry is almost non-existent, major countries in Europe such as France, Germany and Italy entered another round of national lock-downs, and the US death toll climbed over 550k, more than both World Wars and Vietnam war combined. Conversely, equity markets, led by the US, continue to charge higher on the back of a USD$1.9 trillion fiscal package, another US infrastructure spending bill, acceleration of vaccine roll outs, supportive central bank policies and a stabilising bond market. The Fund maintained an overweight bias to growth assets, but has begun to accumulate equity downside protection via option structures, as our view is that further upside is limited. Within equities, the Fund is underweight European equities and overweight Australian and US equities.

Market Commentary

The first quarter of 2021 was dominated by two evolving themes: the rollout of vaccinations and the delivery of further US fiscal stimulus. The two themes combined to provoke an upward revision to global growth expectations for 2021, even though the details reveal a very divergent path to recovery across regions and sectors. Asset markets embraced these themes, with equities pushing to new highs while credit spreads tightened. Bond yields surged higher, led by the US and Australia but with some marked divergence where the macro news was less positive, such as Europe, which had a more muted rise in yields through the quarter.

The rollout of vaccinations is highly dependent on supply. The UK and the US have led the way amongst developed countries, whereas supply problems have significantly hindered the rollout across Europe and, across emerging countries, the picture is even more divergent.

For the US, early in the quarter the Democratic party secured both the Georgia Senate seats and this gave them control of Congress, albeit on the slenderest of margins in the Senate – relying on the casting vote of the Vice President. However, this was enough for the Democrats to successfully pass another large fiscal stimulus package in March, including a substantial cash payment to qualifying households. With vaccination progress enabling a gradual re-opening and fiscal stimulus taking place, financial markets quickly embraced this positive news even though the economic fundamentals only began to improve through March.

Central banks have maintained a cautious stance despite the emergence of positive news on vaccines and fiscal stimulus, with the US Federal Reserve stating that that the activity gap created by the pandemic is large and will take some time to close when many of the inflationary pressures are most likely temporary. This consistent theme around developed countries has caused yield curves to steepen, as short-end rates remain strongly supported by the prospect of steady policy for some time to come.

Outlook

The first 3 months of 2021 brought promises from Central Banks that ultra-loose monetary policy is here to stay and a further USD$1.9T fiscal stimulus package from the Biden administration. Continued monetary and fiscal support and ongoing vaccine roll-outs have resulted in a short-term rebound in economic activities, rising growth asset prices and steepening yield curves. However, high asset prices are accompanied with rising volatility in both equities and fixed income as market participants trying to gauge the different market dynamics in the environment post COVID-19. Fiscal and monetary policies and the trajectory of inflation will have enormous impacts on asset prices for the years to come.

Further fiscal stimulus will be more difficult for politicians to enact, and while monetary accommodation will likely continue, it is extremely unlikely the central banks will increase the level of monetary stimulus from here. As a result, markets will anticipate an increase in the probability of future monetary and fiscal tightening. These are headwinds for equities. Elsewhere, geo-political tensions between China and US continue warrant higher attention.

With low cash rates, and limited growth, the theme of chase-for-yield will continue. Therefore, equity market will still be our preferred asset classes. However, due to the lack of further fiscal and monetary support, higher probability of tightening policies and rich valuation, we view the probability of equities to repeat its performance in the last 12 months to be low. In Q1 2021, we positioned the Fund with a moderate growth orientation. Within the growth asset allocation, the investment manager maintained an underweight position in European equities against

an overweight bias to Australian and US equities. Furthermore, Macquarie have initiated a covered-call strategy that allows us to achieve dual objectives of 1) providing a downside buffer and 2) continuing to participate in moderate equity market upside. The strategy offers consistent income as a trade-off for capped upside gains. Finally, Macquarie also initiated put-option protection in the US equity market when equity volatility dropped significantly.

Availability

Product Name	APIR Code
Flexible Lifetime - Super	AMP0706AU*
SignatureSuper	AMP0958AU*

*Closed to new investors

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