Macquarie Balanced Growth

Quarterly Investment Option Update

30 September 2021

Aim and Strategy

To provide medium to long-term capital growth, together with some income, by investing in balanced level of growth and defensive assets.

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 investment manager aims to deliver above index returns through 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 (%)
Australian Equities(i)	26.0	36.5
Global shares(i)	25.5	25.6
Alternative Assets(ii)	8.0	6.9
Strategic Income(iii)	9.0	10.1
Inflation Linked Bonds	5.0	3.4
Australian Fixed Interest	17.5	9.4
Global Fixed Interest	7.5	8.0
Cash	1.5	0.1

(i) May include exposure to real estate securities
(ii) May include investments in such asset classes as private equity, infrastructure, property or hedge funds
(iii) Invests predominantly in high quality Australian and global credit securities

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 over the quarter and outperformed the strategic benchmark, which was primarily driven by the fund's overweight exposure to growth assets. The fund continued to maintain a moderate overweight exposure to growth assets throughout the quarter.

In the third quarter, International and Australian equities performed positively, delivering +1.8% and +0.7%, respectively. The positive performance was primarily driven by the supportive fiscal and monetary policies globally, although was partially offset by the concern of a potential systemic contagion risk of the Chinese property developer Evergrande as well as possible 'tapering' policies from central banks. In fixed interest, the sector delivered a mixed result, returning +0.3% domestically and -0.1% offshore, with long term interest rates more-or-less unchanged throughout the quarter. International infrastructure and property exposure also delivered a mixed performance, +1.6% and -0.2% respectively.

The fund continues to view growth assets as the preferred asset class, in an environment where monetary and fiscal policies remain accommodative and inflation is rising. As such, the fund maintains an overall overweight bias to growth assets. The fund views contagion risk from the Chinese property sector as low and views the market reaction as potentially overdone. Within the growth asset exposure, the fund has maintained an underweight bias to the emerging market equities allocation, which is viewed negatively relative to international equities.

Market Commentary

With vaccination rates pushing higher and recovery (albeit stuttering) underway, it is not a surprise to hear from policy makers that they are considering withdrawing the huge stimulus support injected into the economy. Worker assistance schemes in many countries have either ended or been nearing an end, so fiscal support is already turning into fiscal drag. During the third quarter of 2021 the narrative from central banks began to evolve. Rate hikes have been delivered in some emerging market countries, while the US Federal Reserve (Fed) and the Bank of England sent signals that they are readying to taper their quantitative support. With rising asset prices the clear winner of global policy maker efforts, the prospect of this being reduced is causing some concern. On top of this, commodity prices (oil and natural gas prices in particular) are launching higher. This is fuelling inflation fears but also talks about stagflation.

Bond yields have begun to trek higher, with the more hawkish-than-expected Fed meeting in September igniting an acceleration. Yield curves are steepening, with short rates protected by the prospect of target rates remaining on hold while longer rates embracing increased concerns that inflation will run 'hotter' for longer.

Risk markets have baulked but this came off tight levels. Investment grade spreads are little changed over the quarter while high yield spreads have widened, albeit modestly. Emerging markets spreads have widened, with a stronger dollar and negative headlines coming from China the key drivers.

Outlook

The manager continues to believe that fiscal policy, monetary policy and the trajectory of inflation will have a significant influence on asset prices for the foreseeable future.

In terms of monetary policy, it is likely the so called 'tapering' talk will continue to intensify and will eventuate in the coming months. There is little question that 'tapering' will continue to increase market volatilities in both equity and fixed income markets. However, the manager does not expect 'tapering' will trigger a meaningful shock to the current positive asset price momentum. 'Tapering' by definition is a slowing in central bank's asset purchases, or less 'gas' on the stimulus accelerator. If the central banks were to taper, monetary policies would still be extremely accommodative and subsequently supportive to asset prices.

In terms of China, there is increasing fear that the possible default of Evergrande highlighted growing risks to Chinese property developers. Market participants feared these risks would cause systematic issues to the financial system in China and subsequently impact asset prices negatively in China as well as internationally. In the manager's view, given the nature of a highly centralised Chinese financial system, the risk of a significant deterioration to financial conditions in China remains low. Furthermore, given the very limited interaction and integration between China and international financial markets, contagion risk to international financial conditions is limited. Nevertheless, Evergrande's debt issue offers some insight into the potential issues that investors could experience if the Chinese economic growth continues to slow.

Putting this together, the asset allocation strategy for the fund will focus on enabling investors to continue participating in growth assets as the 'chase for yield' theme is likely to persist, while at the same time protecting investors from the emerging stagflation risks and rising volatilities due to central bank's tapering. To achieve this, the fund's asset allocation strategy focusses primarily in two areas. Firstly, the manager continues to look for opportunities to acquire put option protection for equities whilst volatility is low. Secondly, within sector selection, the fund continues to focus on exposures that will offer the best risk-adjusted outcome should market tail risks emerge. As such, the fund has maintained a high level of allocation to 'value' sectors, such as Australian equities.

Availability

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

Closed to new members

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