Macquarie Balanced Growth

Quarterly Investment Option Update

31 December 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	4.5
Strategic Income*	9.0	10.0
Australian Fixed Interest	17.5	8.1
Global Fixed Interest	7.5	7.8
Inflation Linked Bonds	5.0	3.4
Australian Equities	26.0	34.1
Global Developed Markets	13.5	20.0
Global Emerging Markets Equities	12.0	4.0
Alternative Assets**	8.0	8.1

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

In the fourth quarter, international and Australian equities performed positively, delivering +1.8% and +7.9%, respectively. The positive performance was primarily driven by the supportive economic fundamentals and monetary policies globally, although was partially offset by concern of the global Omicron outbreak as well as possible tapering policies from central banks. In fixed interest, the sector delivered a mixed result, returning -1.4% domestically and +0.2% offshore, with long term interest rates increased sharply throughout the quarter on inflation concern. Macquarie's international infrastructure and property exposure performed strongly, +3.7% and 10.0% respectively.

In the investment manager's view, there are two areas of concern that need to addressed in formulating portfolio positioning. Firstly, the asset allocation impact of an economic recovery disrupted by Omicron; and secondly, the asset allocation implication of global monetary policy tightening. With careful consideration, the fund has scaled back its growth asset allocation moderately. It is expected the global economic recovery remains uneven due to Omicron and other potential Covid-19 variants. The investment manager also anticipates the virus will continue to pose significant challenges to global supply chains resulting in an increase in the duration and severity of inflation, leading to higher volatilities in both growth and defensive assets.

Market Commentary

During Q4, asset markets were buffeted by the prospect that the path of global monetary policy tightening was spreading from emerging market to developed market central banks. There were three key central bank meetings in December: the US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE). In summary, the guidance was more hawkish than markets expected, which was a bias for tighter monetary policy going forward. In fact, the BoE delivered a 0.25% hike in its base rate, while the Fed guided its intention to hike rates earlier (in 2022) and more quickly. Even the perma-dovish ECB was leaning more hawkish. The driving factor behind their messaging was "higher and persistently higher-than-expected inflation".

With central banks moving to remove the pandemic stimulus, at the same time Omicron has created uncertainty on the economic outlook. Despite this, asset markets ended the year with an aura of calm. Bond yields were broadly contained within ranges and yield curves were relatively flat. Credit spreads, while off their lows, ended the year at the tighter end of valuations. Only emerging market spreads are cheaper, albeit modestly, which is not surprising given the stronger bias of the dollar of late.

Outlook

The fast-spreading Omicron variant has three major short-term implications. Firstly, the Omicron outbreak further interrupted the already impaired global supply chain which will likely create higher inflation in the near term. Secondly, workforce absences as well as diminishing fiscal support will function to slow economic recovery in the short-term. Thirdly, the fast-spreading Omicron variant increases the chance of further mutation of the virus. These factors will likely lead to higher inflation, leading to volatility in growth and defensive asset prices. Furthermore, a more transmissible virus variant will likely challenge China's zero-covid policy. A potential outbreak in China or a longer duration 'lock-down' may dampen the already weakening economic growth in China, subsequently impacting global growth as well as global supply chains.

In terms of monetary policy, if global central banks are to continue to taper to curb inflation, and economies remain in a moderate to high inflation environment, Macquarie expects growth assets to continue to perform positively while the pace of policy tightening is modest. It is important to recognise that 'tapering' is to reduce the current monetary stimulus effort, however, the overall policy direction remains stimulatory with central bank balance sheet continuing to expand, albeit at a slower pace. In light of this, volatility in equity and fixed income markets is likely to increase. However, if global central banks were to increase interest rates to curb inflation, there is the potential for the contraction in liquidity to negatively impact growth and defensive assets.

The asset allocation strategy for the Fund continues focus on enabling investors to participate 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 tapering and raising interest rate. To achieve this, our asset allocation strategy remains focused on volatility management and sector allocation.

Availability

Product name	APIR
SignatureSuper*	AMP0958AU

*Closed to new investors

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