AMP Capital Dynamics Markets

Quarterly Investment Option Update

30 September 2015

Aim and Strategy

Aim and strategy: To provide a total return (income and capital growth) before costs and before tax of inflation (Consumer Price Index) + 4.5% per annum, on a rolling 5 year basis, by investing in a portfolio that is diversified across asset classes. The aim is to maintain a portfolio that is relevant to market conditions, and which more closely matches the needs of the investor.

The portfolio is actively managed in terms of asset allocation and currency hedging, with the flexibility to change the asset class mix and currency hedging level at any time within broad ranges. This allows AMP Capital to move the asset allocation mix across a range of asset classes in order to take advantage of opportunities arising from market mispricing.

The investment option provides investors with diversification by investing across a range of traditional asset classes such as shares, listed property, commodities, fixed income, credit and cash. The underlying asset class exposures are achieved by investing in passively managed investments such as index strategys, exchange traded strategys (ETFs) and derivatives.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1935AU
AMP Flexible Super - Retirement account	AMP1986AU
AMP Flexible Super - Super account	AMP1937AU
AMP Growth Bond	AMP2046AU
CUSTOM SUPER	AMP1935AU
Flexible Lifetime - Allocated Pension	AMP1988AU
SignatureSuper	AMP9041AU
SignatureSuper Allocated Pension	AMP9042AU

Asset Allocation	Benchmark	Range (%)
Australian Shares	20	0–50
Global Shares	25	0–50
Growth Alternatives	5	0–25
Global Property	5	0–25
Australian Bonds	10	0–25
Global Bonds	25	0-75
High Yield Bonds	5	0–25
Cash	5	0–50

Investment Option Overview

Investment category	Multi Sector (Specialist)
Suggested investment timeframe	5 years
Relative risk rating	Medium - High

Investment Option Commentary

September saw ongoing volatility as the correction in equity markets continued. This was exacerbated by the Fed's decision to keep rates on hold, raising concerns on global growth, particularly in China and emerging markets. As a result, the Fund delivered a negative return for the month and underperformed its CPI objective and neutral benchmark. Despite the short term drawdown, over longer time periods including 1 year and since inception, the Fund has outperformed its CPI objective and neutral allocation. Allocations to emerging market shares, global REITs, investment grade credit and a high cash weighting were positive contributors to the return, but this was outweighed by the sell-off in Australian and international developed market shares. The Fund's high cash allocation and some portfolio hedges amidst the market correction were reason for us to closely analyse market conditions and wait for opportunities to reallocate towards growth assets.

Over the course of the last week of September and early October, we saw several boxes ticked in terms of a solid bottom in most growth assets. The fact that commodities and emerging market currencies and equity markets did better than mainstream equities in the latter part of September is the type of positive divergence we typically see at market lows (together with the fact that market volatility did not reach the climatic high of the panic during August despite lower equity prices) . Meanwhile, US earnings expectations are now extremely depressed which suggests markets will likely be positively surprised as the earnings season gets underway over the coming days. So given the improvement in valuations scores, extreme pessimism on sentiment indicators, healthy underlying trend in cycle indicators and positive technical confirmations, we allocated 9% towards equities, the majority of the allocation was allocated to European shares. We also closed the portfolio hedges that were in place. The subsequent rebound in markets during early October has seen this trade add immediate value to the Fund.

Market commentary

The September quarter was dominated by pessimism from investors globally, stemming largely from Chinese markets and concerns about a possible sharp Chinese economic slowdown. Chinese economic activity softened through the quarter, which significantly influenced demand for exports from China's trading partners The MSCI World (ex-Australia) Accumulation Index fell by 7.73% in local terms. Developed markets significantly outperformed emerging markets which were 12.10% lower in local terms.

The Australian equity market posted a consecutive quarterly loss, as the market continued to react to fears related to the pace of the slowdown in China's economy. The S&P/ASX 200 Accumulation Index finished the quarter down by 5.79%. International government bond returns were positive for the quarter as yields fell. Concern over Emerging Markets and in particular Brazil, China and Russia as well as the Federal Reserve delaying interest rate rises saw bond yields fall sharply. Australian government bond yields tracked lower for the quarter. The Reserve Bank of Australia (RBA) maintained the official cash rate at 2.00% over the quarter. The Australian listed property (A-REIT) sector managed to post a positive return of 1.11% this quarter and outperformed domestic shares by a margin of 7.69%. Performance was roughly in line with global property counterparts for the period.

Outlook

Despite the rebound in markets in early October, we do not expect that shares will now go up in a straight line. We continue to expect there will be market volatility; however, late October onwards tends to be a seasonally strong period for shares going into a year-end rally. Cash exposure in the Fund remains relatively high and we will look to further reduce the cash allocation in favour of other growth prospects as opportunities arise.

Contact Us

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What you need to know