Schroder Real Return

Quarterly Investment Option Update

30-June-2016

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1870AU
Flexible Super – Choice (Super)	AMP1866AU
Flexible Lifetime – Allocated Pension	AMP1854AU
Flexible Lifetime – Super	AMP1850AU
Signature Super	AMP1858AU
Signature Super – Allocated Pension	AMP1862AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

Overview

Aim & Strategy: To deliver an investment return of 5% pa before fees above Australian inflation over rolling 3 year periods. Inflation is defined as the RBA's Trimmed Mean, as published by the Australian Bureau of Statistics.

The portfolio invests across a broad array of asset classes including equity, alternatives and debt to ensure the portfolio is truly diversified in both an economic and asset class sense.

The portfolio employs a dynamic asset allocation framework in which both asset market risk premium, and consequently, the asset allocations of the portfolio are constantly reviewed. As risk premium (and thereby expected returns) change, so too will the asset allocation of the portfolio (and sometimes significantly).

The portfolio will reflect those assets that in combination are most closely aligned with the delivery of the objective. The investment manager believes that in effect it is not the asset classes that are important but the likely characteristics of the return. The approach utilises a combination of Schroder's longer term return estimates together with their shorter term value, cycle and liquidity framework.

Investment category: Multi-sector (Specialist)

Suggested Investment Timeframe: 5 years

Relative Risk Rating: Medium to High

Holdings

Industry Exposure	%
Australian Equities	15.21
Global Equities	12.95
Higher Yielding Credit	13.62
Absolute Return Strategies	-0.30
Australian Fixed Income	14.77
International Fixed Income	8.18
Inflation Linked Bonds	3.55
Mortgages and Sub Debt	5.58
Cash	26.44

Regional Exposure	%
Australia	68.74
USA	20.16
Europe Ex UK	5.07
UK	2.10
Asia incl Japan	3.45
Emerging Markets	0.00
Others	0.48

Market Commentary and Investment Option Commentary

The Real Return Strategy produced a modest negative post-fee return of -0.8% in June, partially offsetting the strong gains in April and May. This left the post-fee return for the quarter at +1.9% and +1.4% for the year ended June, above cash and Australian equities. On a rolling 3 year ended basis (the Strategy's targeted investment horizon), the Strategy's return is just under 4% pa above inflation.

During June, the biggest driver of returns was the Brexit fallout which initially dragged risk assets lower and saw bonds supported by both a flight to safety and the implications of Brexit on already dovish central banks. Our direct exposure to Brexit risk was relatively low.

For the June quarter, positive equity returns, lower bond yields, tighter credit spreads and a weaker AUD, all contributed to performance over the June quarter. Even though both Australian and International equities weakened in June, this was not enough to offset their strong returns in April and May. Fixed income assets benefitted as global bond yields continued their decline, most noticeably in Australia (which is where we hold most of our exposure), while both investment grade and high yield credit spreads also tightened over the quarter. A modest decline in the Australian dollar added to performance, as the fund has an approximate 14% exposure to foreign currencies, primarily through the USD. Stock selection in the active Australian equity strategy was a mild detractor, driven by the underweight positions in A-REITs and healthcare.

Outlook

Just when investors thought it safe to re-enter the water, the surprise Brexit referendum outcome brought significant volatility and renewed uncertainty about growth, policy and geo-politics. While the immediate ramifications were felt hardest in the UK and Europe (especially in currency markets where the sterling slumped and in financial stocks), away from Europe the ramifications were more benign. While this is in large part because Brexit has its most direct effects on the UK and the UK economy (we think a recession in the UK is now highly likely), the more muted stance in other assets can be at least in part attributed to the pressure Brexit puts on central banks in general to continue to pile stimulus into the global economy. The "bad news is good" mentality is alive and well.

Janet Yellen and the Fed had already turned more dovish with further US rate hikes seemingly requiring a combination of a run of strong data (especially payrolls), rising inflation, rising asset prices and stability in key global economies – all at the same time - an unlikely combination at the best of times. Meanwhile, the ECB whose focus remains on headline (not core) inflation will continue to push harder into negative rate territory irrespective of the risks this poses for European banks in particular and for the pricing of risk assets more broadly. It is certainly fair to conclude that Brexit will pose some downside risks to growth in Europe, but it is doubtful that throwing more fuel on the fire will help.

While we, like most of the market, were surprised by the Brexit result, the impact of this on the Portfolio has been modest.

In broad terms, the Real Return Strategy has been defensively positioned. This is reflected in low absolute exposure to equities (28%) and relatively high exposure to cash (27%). We had little direct exposure to UK equities and sterling. For the residual of the portfolio which is mainly in credit based assets and mainly high grade and high quality, exposure to the UK and Europe is relatively small. While we did add risk to the portfolio in February following the sharp declines in equities and the significant widening in credit spreads, as risk assets recovered more recently, we took action to again reduce risk through firstly trimming our global high yield debt exposure, but more significantly, by adding a 5% US S&P put option position which in the event of a sharp fall in equities would effectively reduce our equity exposure by an equivalent 5%. While the reverberations from Brexit were relatively narrow and concentrated in UK / European assets, exposure to volatility and having some broad based protection has been beneficial, especially given our downside risk focus.

While markets have in many cases recovered from their Brexit jitters, we are remaining cautious. There is still significant uncertainty surrounding the consequences and timeframe of the eventual exit of Britain from the EU. Likewise, we are skeptical of the sustainability of the recovery in risk assets which seems in large part premised on more central bank support rather than improving underlying fundamentals. In fact, some significant question marks hang over US profits and whether the moderation we've seen recently proves temporary.

One thing Brexit has done is remind us about the inherent vulnerability of financial markets to these sorts of shocks. Our approach is anchored to the idea that the ability of markets to withstand these shocks is a function of valuations (cheap assets are in a much better position than expensive assets) and in the ability of policy makers to provide support. The caution we describe above reflects both these ideas. Cheap assets are non-existent (and some much more vulnerable than others) and the ability of policy makers to deal with a crisis is arguably reaching a limit (debt levels are tapping out and interest rates are already very low / negative). This makes markets vulnerable.

It also means that what we've seen recently in terms of heightened volatility and strengthening headwinds will become more evident going forward. Steering a steady course through this, and taking advantage of these episodic dislocations will be important as we balance our return objectives against our risk objectives – particularly the avoidance of significant downside risk.

should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.