

Macquarie Income Opportunities

Quarterly Investment Option Update

31 March 2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1585AU
AMP Flexible Super – Choice (Super)	AMP1573AU
CustomSuper	AMP1525AU
Flexible Lifetime – Allocated Pension	AMP1537AU
Flexible Lifetime – Super	AMP1525AU
Signature Super	AMP1549AU
Signature Super – Allocated Pension	AMP1561AU

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.

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Overview

Aim & Strategy: To provide higher income returns than traditional cash investments (with some volatility over short time periods) by investing in a diversified portfolio of both domestic and global credit based securities. The benchmark used is the Bloomberg AusBond Bank Bill Index. The portfolio invests predominantly in floating rate notes, Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS), which make up the core portfolio. The investment manager also takes an opportunistic approach to investing in hybrids, global investment grade debt securities,

global high yield securities, emerging market debt securities and credit opportunities (such as Australian RMBS, offshore asset backed securities, bank loans and other credit opportunities) which aim to take advantage of dislocated market conditions. International investments are generally hedged to the Australian dollar.

Investment category: Credit and Fixed Interest trading strategies

Suggested Investment Timeframe: 3 years

Relative Risk Rating: Medium

Investment Style: Active

Asset Allocation	Range (%)	Actual (%)
Investment Grade	20-100	94.4
Hybrids	0-10	0.3
Global High Yield	0-15	1.0
Emerging Market Debt	0-15	0.0
Credit Opportunities	0-20	4.3

Holdings

Industry Exposure – Top 5	%
Banks	26.7
Residential mortgage	12.8
Transportation	5.9
REITs	5.6
Electric	4.5

Regional Exposure	%
Australia	56.7
United States	19.7
UK	3.0
Europe Ex UK	8.9
Other	11.7

Top Ten Securities	%
ANZ Bank	1.5
NAB	1.4
CBA	1.1
Bank Of America Corp	1.0
Crown Group Finance Ltd	0.9
ANZ Bank	0.9
Westpac	0.9
Westpac	0.9
AMP	0.7
Federation Centres Ltd	0.7

Market Commentary

Most markets finished the March quarter higher, with continued strong market sentiment tempered somewhat by setbacks to the US Trump administration's reform agenda. Economic growth globally continues to remain elevated and indicate a cyclical uptick in growth is ongoing, though there were signs in the latter half of the quarter that the rise in inflation, in particular, was beginning to peak. Key market events during the month included a US Federal Reserve (Fed) hike, the most recent earnings season, and the aforementioned failure of Trump to advance any of his key policies. As the quarter drew to a close, it appeared a renewed 'chase for yield' mentality was returning to markets, with assets as diverse as government bonds, credit and equities continuing to gain a bid.

The Fed hiked its rate window by 25bps but made no indication the earlier than expected move marked an acceleration in the pace of future hikes with bond markets generally rallying through the month despite the news.

Earnings seasons mostly wrapped up globally through February. The results were generally better than expectations, and continued the improving trends from the previous quarter after a number of periods of negative growth.

The Trump administration stumbled at its first key legislative hurdle during March, with the Republican Party's amendments to the Affordable Care Act ("Obamacare") failing to find enough support within their own party. While the failure has little direct economic consequence, it may point to difficulties for the new President in getting his broader, more economically important agenda through a divided legislature.

Investment Option Commentary

The Fund outperformed the benchmark over the March quarter. All key sectors contributed, with holdings of global investment grade and high yield the key drivers of performance in the first half of the quarter, while Australian credit holdings were the best performers globally in March, and drove much of the performance in that month. Duration positioning, which has been positioned modestly long in both Australian and US rates, also added to performance and continues to act as a buffer for the credit holdings. Given the strong performance of high yield holdings over the last year, and the reduced value on offer in that market, the Fund finalised the sale of the last remaining high yield allocation into the end of the quarter.

Outlook

Market sentiment remains positive, despite modest volatility and some setbacks to the bull case this month. In the absence of meaningful reform, we believe markets are likely to revert to a 'chase for yield', as the underlying structural issues that weigh on developed markets have not meaningfully changed. That means that high quality credit should remain well supported, as will bonds, which provide steady income and some downside protection. Given the strong performance markets over the last 12 months, some portions of the credit market offer less value compared to the risk they bring, so we have adjusted positioning in some segments accordingly, reducing weights to the highest beta sectors while remaining invested in investment grade credit.

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