

# AMP Capital Dynamic Markets

Quarterly Investment Option Update

31 December 2017

## 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 strategies, exchange traded strategies (ETFs) and derivatives.

## Investment Option Performance

To view the latest investment performances please visit [www.amp.com.au](http://www.amp.com.au)

## Availability

Product name	APIR
<a href="#">AMP Flexible Lifetime Super</a>	AMP1935AU
<a href="#">AMP Flexible Super - Retirement account</a>	AMP1986AU
<a href="#">AMP Flexible Super - Super account</a>	AMP1937AU
<a href="#">AMP Growth Bond</a>	AMP2046AU
<a href="#">CUSTOM SUPER</a>	AMP1935AU
<a href="#">Flexible Lifetime - Allocated Pension</a>	AMP1988AU
<a href="#">Signature Super</a>	AMP9041AU
<a href="#">Signature Super Allocated Pension</a>	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

## Portfolio Summary

- > The Fund delivered a positive return, though slightly underperformed its CPI + 4.5% objective in December.
- > Since inception of the strategy, the Fund has exceeded the CPI + 4.5% objective.
- > The main positive contributor was the allocation to the energy and oil services sectors.

## Investment Option Commentary

For December, the Dynamic Markets Fund delivered another positive return, with the one-year return now standing at close to 6%.

In line with November, the main positive contributor was the portfolio's allocation to the energy and oil services sectors, which has been driven by a continued rebound in the oil price, falling inventories and positive sentiment from the extension to production cuts by OPEC. The energy and oil services sectors have lagged the oil price, leaving further room for catch up. These long term positions have just started to pay off for us and we believe they have may have more to offer.

Industrial metals (nickel and platinum) and commodity related stocks (Chile, Australian equities and Resources) also had a good month amid the synchronised global growth environment.

On the negative side, European equities and banks have been under pressure with political uncertainty around Italy and our inflation breakeven position has not paid off so far, with global growth failing to turn into inflation pressure yet.

In order to maintain our growth exposure in the low volatility environment, we had to keep carrying hedges in the portfolio; our Asia FX position versus USD has been our biggest detractor this month, however this would provide significant buffer should volatility pick up in early 2018.

## Market commentary

International shares continued to rise in December, again largely driven by US President Trump's proposed tax cuts, which are likely to be very positive for US corporate earnings and economic growth. The MSCI World ex Australia Net Index ended the month up by 1.1%, with the US S&P500 Total Return Index also up by 1.1%. Continental European shares pulled back slightly, however UK equities were up strongly, returning over 5.0% for the month on the back of softer-than-expected regulatory changes for banks. Japanese shares and other Asian markets overall closed slightly higher, while emerging markets again did well, finishing up by around 2.6% as they continue to benefit from the global pickup in trade and accompanying rising resource prices. (All figures quoted in local currency terms.)

Australian shares finished 2017 on a positive note, with the S&P/ASX 200 closing up by 1.8% on a total return basis for December. Materials and telecommunications stocks did particularly well, while the defensive sectors of utilities and health care were slightly down over the month. Papua New Guinea-focused oil and gas producer, Oil Search, was a particularly strong performer in December as speculation continued on potential merger & acquisition activity, while at the bottom end of the market, child-care operator G8 Education closed down by more than 23% after an unexpected earnings downgrade. Some analysts have been questioning of late whether earnings multiples are too optimistic, given some of the challenging economic conditions in Australia such as low growth, high debt levels, weak consumer spending, lack of wages growth and rising living costs. Population growth and a pickup in LNG exports however are likely to provide some positive support.

Global government bond yields were mixed in December. After rising significantly around the middle of the month after the US Federal Reserve raised interest rates, the US 10-year bond yield retraced to the level where it started the month, finishing December unchanged at 2.41%. In contrast, the German 10-year bond yield ended the month higher, rising by five basis points to 0.42%. The Japanese 10-year bond yield also moved slightly higher to end the month at 0.043%, up from 0.039% previously.

Government bond yields in Australia moved higher over the month. The Commonwealth Government 2-year bond yield ended 23 basis points higher at 1.97%, while the Commonwealth Government 10-year bond yield ended 13 basis points higher at 2.63%. The overall tone in data releases improved during the month which included continued strengthening in the labour market, and sentiment was buoyed by mid-year updates from federal and state governments showing broad improvements in projected fiscal positions.

## Outlook

From a one year perspective, our portfolio allocation was consistent with our investment process throughout 2017. This meant we refrained from chasing expensive and crowded markets such as technology, but instead looked for opportunities in cheap and unloved markets. These positions are starting to turn and we expect the portfolio to benefit strongly in 2018.

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