Diversified Investment Strategy No. 5

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide investors with moderate long term investment returns but with less exposure to the volatility of conventional markets. The strategy will primarily invest in a diversified mix of defensive (44%) and growth (56%) assets. Through extensive research, ipac has identified and selected specialist managers to manage the day to day investments within each asset class.

Investment Option Performance

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

Investment Option Overview

Investment category	Diversified - Moderately Conservative
Suggested investment timeframe	3 - 5 years
Relative risk rating	Medium
Investment style	Multi - Manager

Asset Allocation	Benchmark	Range (%)
Australian Shares	21	19-33
Global Shares	18.5	15-30
Growth Alternatives	2	0-10
Australian Property	8	0-20
Global Property		0-21
Global Infrastructure		0-22
Defensive Alternatives	3	10-40
Australian Bonds	16.5	0-22
Global Bonds	16.5	0-22
Cash	14.5	0-20

Top Ten Australian Shares Exposure	%
COMMONWEALTH BANK AUST	8.34
Westpac Banking Corp	6.50
BHP Billiton Ltd	5.71
Australia & New Zealand Banking Group Ltd	5.19
National Australia Bank Ltd	4.76
CSL Ltd	3.80
WESFARMERS LTD	2.81
TELSTRA CORP LTD	2.46
Rio Tinto Ltd	2.25
WOOLWORTHS GROUP LTD	2.10

Top Ten International Shares Exposure	%
Westpac Banking Corp	1.64
COMMONWEALTH BANK AUST	1.60
National Australia Bank Ltd	1.57
Australia & New Zealand Banking Group Ltd	1.53
Visa Inc	1.18
Alphabet Inc	1.18
Royal Dutch Shell PLC	1.03
APPLE INC	1.02
Home Depot Inc/The	0.99
Facebook Inc	0.99

Investment Option Commentary

Typically, alternative assets include anything that does not fall into the traditional fixed income or listed share buckets. For example, alternative assets may include infrastructure, property, agriculture, and private equity, which are employed to provide diversification away from common market risks managers may face. We divide our Alternative category investments into two sectors: Alternative Growth and Alternative Defensive. We are constantly reviewing new strategies that may be able to provide access to other diversifying sources of return.

International equity markets saw yet another very strong quarter and were again accompanied by very low levels of volatility. Globally, conditions remain in somewhat of a sweet-spot, with strong economic growth and supportive financial conditions, even as the US (and others) raised interest rates. Global shares ended the period up around 5.3%, as measured by the MSCI World ex Australia Net Index in local currency terms. (The return was slightly stronger in Australian dollar terms due to currency movements.) The US S&P 500 Total Return Index continued to climb through record-highs and closed the quarter up 6.6% (in US$ terms) as corporate earnings remained strong and President Trump's proposed tax cuts continued to drive optimism.

Australian shares had a stellar December quarter, with the S&P/ASX 200 Index rising by 7.6% on a total return basis. The quarter saw investors become less optimistic on Australian banks, on the news of an upcoming Royal Commission into alleged misconduct in the financial services industry. Australia's financial companies are already under a significant degree of scrutiny by regulators, and markets are concerned about what the upcoming investigations may unearth, particularly in regard to lending practices.

Global government bond yields were mostly mixed over the first two months of the December quarter. The US 10-year bond yield moved higher amid continued signs of strength in the US economy and generally favourable corporate profit results. In contrast, yields in Japan edged lower, while those in Germany remained relatively stable. The mixed pattern of yield movements continued into December, amid the legislative passage of US tax reforms and a commitment by the European Central Bank to continue with monetary stimulus.

Australian government bond yields moved lower over the course of the first two months of the quarter, weighed down by anaemic wages growth and a deceleration in retail sales. Moreover, a lower than expected third quarter inflation result reinforced a consensus view that monetary policy will remain unchanged for an extended period. Domestic yields moved higher during December as the overall tone in data releases improved during the month, which included continued strengthening in the labour market.

Overall, we believe market returns in 2018 will be lower than in 2017 and market volatility will rise from the exceptionally low levels experienced last year. But to be sure, we continue to expect that investors in our diversified funds will be rewarded with attractive positive returns which are well in excess of the cash rate and that will serve to grow their purchasing power.

Contact Us

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)