Professional Balanced

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide moderate investment returns over the long term, with the likelihood of fluctuations in the value of the investment from year to year. The portfolio will primarily invest in a diversified mix of defensive and growth assets managed by professional asset managers identified and selected by ipac within each asset class.
(Multi Sector (Traditional) investment approach).

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1955AU
AMP Flexible Super - Retirement account	AMP1962AU
AMP Flexible Super - Super account	AMP1969AU
Flexible Lifetime - Allocated Pension	AMP1948AU
Flexible Lifetime - Term Pension	AMP1948AU
Flexible Lifetime Investment (Series 2)	AMP1980AU
Signature Super	AMP1730AU
Signature Super - Allocated Pension	AMP1779AU

Asset Allocation	Benchmark	Range (%)
Australian Shares	29	25-39
Global Shares	29	21-35
Growth Alternatives	3	0-10
Australian Property	8	0-25
Global Property		
Global Infrastructure		
Defensive Alternatives	4	0-10
Australian Bonds	10.5	0-20
Global Bonds	10.5	0-20
Cash	6	0-30

Investment Option Overview

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

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

Actual Allocation	%
Australian Shares	27.23
International Shares Unhedged	25.81
Cash	15.94
Real Assets	6.99
Multi Strategy Fixed Income	6.82
Government Bonds	5.93
Alternative Defensive	5.72
Alternative Growth	3.57
International Shares Hedged	3.42
Others	-1.42

Investment Option Commentary

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.

The Reserve Bank of Australia (RBA) maintained its neutral stance on interest rates, which have remained on hold at 1.5% for an extended period. Still-low levels of underlying inflation combined with extremely expensive (though apparently deflating) east coast property markets, low wages growth and weakness in the consumer sector all remain key concerns for the RBA.

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.

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