Professional Moderately Conservative

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide moderate long term investment returns, with limited 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	AMP1958AU
AMP Flexible Super - Retirement account	AMP1965AU
AMP Flexible Super - Super account	AMP1972AU
Flexible Lifetime - Allocated Pension	AMP1951AU
Flexible Lifetime - Term Pension	AMP1951AU
Flexible Lifetime Investment (Series 2)	AMP1983AU

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

Investment Option Overview

Investment category	Diversified - Moderately Conservative
Suggested investment timeframe	3 - 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	%
Cash	23.40
Australian Shares	18.38
International Shares Unhedged	17.39
Multi Strategy Fixed Income	14.88
Government Bonds	10.02
Real Assets	6.95
Alternative Defensive	3.97
International Shares Hedged	3.42
Alternative Growth	1.59

Investment Option Commentary

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. The US 10-year Treasury bond yields ended the quarter at 2.41%, with comparable maturities in Germany and Japan ending at 0.43%, and 0.048% respectively.

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. In addition, sentiment was buoyed by mid-year updates from federal and state governments showing broad improvements in projected fiscal positions. The Australian Commonwealth 10-year bond yield ended the quarter at 2.63%, while its 2-year counterpart ended at 1.97%.

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. Three and six-month Australian bank bill rates were both up by 9 bps, finishing the quarter at 1.80% and 2.00% respectively.

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.

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.

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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