AMP Capital Dynamic Markets

Quarterly Investment Option Update

30 June 2018

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 strategys, exchange traded strategys (ETFs) and derivatives.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1935AU
AMP Flexible Super - Retirement account	AMP1986AU
AMP Flexible Super - Super account	AMP1937AU
AMP Growth Bond	AMP2046AU
CUSTOM SUPER	AMP1935AU
Flexible Lifetime - Allocated Pension	AMP1988AU
Signature Super	AMP9041AU
Signature Super Allocated Pension	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 underperformed its CPI + 4.5% objective in June.
- Since inception of the strategy, the Fund has exceeded the CPI + 4.5% objective.
- The main asset allocation change in June was to increase the exposure to Australian shares

Investment Option Commentary

Geopolitical worries and concerns around escalating trade wars remained at the forefront of markets during June as the Fund underperformed its objective. Despite a dovish European Central Bank (ECB), a peaceful US-North Korea summit and an OPEC meeting that was well received by markets, new tariff threats between US and China led to a pickup in market volatility. Whilst the investment team's view is that ultimately there will be a negotiated solution which will avoid a full-blown trade war, it doesn't mean there won't be bouts of short term volatility along the way, which is why it is important to remain nimble and continually monitor positions. The team continues to hold hedges and a relatively high cash allocation in the portfolio.

The main positive contributor to return was the allocation to Australian shares. Australian shares were the best performing developed equity market globally during June and have shown strong resilience to market volatility, which has been helped by a falling Australian dollar and years of relative underperformance against global shares. Within Australian shares, the Fund's core allocation towards the resources sector in particular was a significant value-add. One of the main asset allocation changes during June was to increase the exposure to Australian shares and diversify some of the concentration away from the resources sector, following strong gains. The Fund's exposure to US inflation expectations has been another core position that has been a solid contributor since entering the portfolio during 2017, as a tighter labour market and rising oil price has led to broadening wage growth and growing inflationary pressures. In addition, portfolio hedges including a long Japanese yen position, volatility futures and China H put options added value and provided a cushion during the drawdown.

After being a significant positive contributor year-to-date, the Fund's overall FX basket gave back part of its gains during June. This followed the team's decision to take profit on the long US dollar position, following a strong run and signs of it topping as it once again becoming a crowded trade. The US dollar spiked following the US tariff announcement, but remained within its recent trading range for the remainder of June. As a function of the US dollar's strength, the exposure to emerging market (EM) shares and commodities has been negatively impacted, but as the US dollar begins to reverse, these two areas (particularly metals) are well positioned to enjoy a strong rebound. It's worth highlighting that the Fund's exposure to EM shares was totally closed at the start of the year, as the asset class had become crowded, leaving it vulnerable to US dollar strength. This paid off immensely, as EM equities went through significant liquidation. With the euphoric sentiment now replaced with extreme pessimism, we have started to selectively add EM shares again.

Market commentary

International shares rose slightly in June, with the MSCI World ex Australia Net Index ending the month up by just over 0.2%. In the US, the S&P500 Total Return Index closed 0.6% higher, (or +3.0% in AUD terms). While trade tensions between the US and China rose somewhat over the month and fears of an all-out trade war slightly increased, sound economic fundamentals are continuing to provide equities a base level of support in the US, with global growth remaining solid, corporate earnings growth still at generally good levels and monetary policy remaining easy. Chinese shares however didn't get off so lightly, the S&P/CITIC300 Total Return Index plunging by 7.3% over the month on fears of further tariffs. European markets generally closed lower, as political uncertainty continued, with Italy's newly formed government being a main talking point. Finally, the MSCI Emerging Markets Total Return Index suffered another month of falls, finishing the month down by 2.5%, as concerns around the strong US dollar and subsequent rising funding costs, trade tariffs and the rising oil price continued to dampen sentiment. (All figures quoted in local currency terms.)

Australian shares were up strongly in June, with the S&P/ASX200 Total Return Index closing up by 3.3%. Commonwealth Bank and Westpac were the most significant positive contributors to the performance, as the banks found some buyer support after being heavily sold off over the past year due largely to negative sentiment associated with the royal commission, increased capital holding regulations and the Sydney/Melbourne housing downturn. Resource giant BHP and global biotech CSL also had strong months, likely attributable to the rising US dollar, which strongly correlates to increasing their earnings in AUD terms. Telstra was again a laggard, as the share price fell further on continued shorter-term concerns of reducing profits and dividends, despite the business announcing cost-cutting to be on track and further detailing their new strategy to gain market share. Other than telecommunications, all sectors of the market were positive in June, with energy being the best performer amid ongoing rising resource prices.

Global bond yields moved higher early in June amid an easing of political uncertainty in Italy and optimistic economic commentary from central bankers in Europe and the US, where the Federal Funds Rate was raised from a range of 1.50%-1.75% to 1.75%-2.0%. However, a subsequent reversal in yield momentum resulted in the US 10-year bond yield ending the month unchanged at 2.86% and its Japanese counterpart slightly lower to 0.036% respectively. The German 10-year bond yield similarly reversed an initial rise, ending the month four basis points lower at 0.30%.

Government bond yields in Australia followed a similar path to their overseas counterparts, with their initial upward momentum spurred on by a favourable quarterly gross domestic product result. A subsequent trend reversal resulted in the Commonwealth Government 2-year bond yield ending the month relatively unchanged at 1.99%, while the Commonwealth Government 10-year bond yield fell by four basis points to 2.63%. In addition to the lead provided by global trade concerns, local bonds were also influenced by the latest Australian labour force data.

Outlook

Overall, we retain a favourable medium term view of markets and will continue to be guided by our asset selection process. However, it is important to continue to be agile in this environment to both minimise downside and take advantage of buying opportunities as they arise, as well as retain some hedges in the portfolio when the risk of drawdown is high.

Contact Us

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

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