Diversified Investment Strategy No. 5

Quarterly Investment Option Update

30 June 2018

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	7.11
BHP Billiton Ltd	6.31
Westpac Banking Corp	5.66
CSL Ltd	4.89
Australia & New Zealand Banking Group Ltd	4.71
National Australia Bank Ltd	4.17
WESFARMERS LTD	3.08
WOOLWORTHS GROUP LTD	2.40
Macquarie Group Ltd	2.37
Rio Tinto Ltd	2.32

Top Ten International Shares Exposure	%
GMO Emerging Markets Trust	2.87
Visa Inc	1.27
Royal Dutch Shell PLC	1.21
Amazon.com Inc	1.11
APPLE INC	1.08
Home Depot Inc/The	0.97
Alphabet Inc	0.95
Facebook Inc	0.94
Microsoft Corp	0.93
HDFC Bank Ltd	0.82

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. Our underlying alternative growth and defensive strategies produced mixed returns over the quarter.

Global government bonds yields moved higher in April, as markets regained their appetite for risk amid further evidence of strengthening economic conditions. In May, fears of a populist anti-European government coming to power in Italy prompted a sell-off in the debt of peripheral European nations and a flight to the quality of higher rated issuers. The US was one of the recipients of the shift in investment flows. After trending upwards early in June, amid an easing of political uncertainty in Italy and optimistic economic commentary from central bankers in Europe and the US, yields subsequently reversed this momentum to fall amid escalating trade tensions.

Australian interest rates remain on hold at 1.5%, where they have now been sitting at for 23 months, with little to no recent sign of any change of tack from the Reserve Bank (RBA).

Despite a number of global concerns for investors throughout the June quarter, most markets climbed the 'wall of worries' to rise strongly. Concerns included negative US rhetoric towards Europe with the threat of tariffs on automotive imports, ongoing US/China counter-retaliatory tariff threats, early inflationary concerns in the US, currency concerns in emerging markets (EM) as the US dollar rose and subsequent concerns around the increasing real debt levels of many EM companies which hold their debt in US dollars.

Australian shares were up very strongly in the June quarter, the S&P/ASX200 Accumulation Index soaring 8.5% during the period. Energy and healthcare were the standout sectors for the quarter, rising 19.7% and 16.5% respectively, largely driven by rising resource prices and the rising US dollar; which is heavily tied to the earnings expectations for many Australian businesses, notably (and respectively) BHP and CSL, who were the market's top contributors for the quarter.

We have modestly increased our cash holdings over the past six months in anticipation of a rise in volatility as financial condition in the US tighten further.

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