

AMP Capital Dynamic Markets (Series 2)

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To provide a total return (income and capital growth) before costs and before tax above the benchmark (being the Reserve Bank of Australia inflation rate (Consumer Price Index) – trimmed mean plus 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 portfolio 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 funds, exchange traded funds (ETFs) and derivatives.

Asset Allocation	Ranges (%)
Australian shares	0-50
Global shares	0-50
Growth alternatives	0-25
Global property	0-25
Australian bonds	0-25
Global bonds	0-75
High yield bonds	0-25
Cash	0-50

Investment Option Performance

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

Investment Option Overview

Investment category	Multi-Sector
Suggested investment timeframe	5 years
Relative risk rating	Medium - High
Investment style	Active

What Happened Last Period

- > Since inception of the strategy, the Fund has exceeded the CPI + 4.5% objective.
- > The main asset allocation change in September was to increase exposure to growth assets, primarily through Japanese equities.

Fund Performance

For September, the Fund delivered a -0.4% return. Since inception, the Fund has achieved and exceeded its objective.

September saw trade tensions continue to linger, as the US announced the next set of tariffs against China. On the flip side, the US agreed to a revised trade deal with Mexico, Canada and South Korea. This highlighted President Trump's capacity to make progress, rather than just stir tensions with inflammatory rhetoric, particularly ahead of the upcoming mid-term elections. There was also an increase in Brexit-related risk, as the European Union (EU) rejected Britain's proposal (on maintaining economic relations with Europe post-Brexit) and the Federal Reserve raised rates as expected and removed the word "accommodative" from their statement, in recognition of the economy's solid footing.

Despite ongoing volatility and geopolitical worries, global growth and economic data remains broadly solid and global equities remain in a broad uptrend and we believe pullbacks continue to represent buying opportunities. The investment team are cognisant that as we go through this continued transition from an era of quantitative easing (QE) to quantitative tightening (QT), it cannot necessarily be assumed that what performed well previously is always going to outperform, as market cycles evolve and sector leadership changes. Year to date, gains in markets have been concentrated in a very narrow segments, dominated by tech stocks in the US. DMF's philosophy is to not chase returns, nor allocate to markets based on momentum, at any price. This has seen the Fund's return lag behind headline indices such as the S&P 500 and diversified funds with a significant passive exposure to US equities. In our view, the growth heavy US equity market is at a significant risk of correcting/underperforming due to a combination of crowded positions, increasing regulation risk around the tech sector and rising inflation and interest rates placing downward pressure on elevated margins and profit expectations. The market divergences we have seen year to date with US and the tech sector outperforming all other markets has shown some signs of relenting/exhaustion, with Japan and the energy sector the strongest performers in September. Furthermore, the relative outperformance of the US against other global equities is now around historical extremes. At these levels, we have previously seen this divergence unwind and we expect to see a rotation from US equities to non-US equities.

In addition, as inflationary pressures continue to grow and bond yields gradually rise (to some of the highest levels seen since 2011), this is expected to benefit sectors such as financials that are correlated to higher yields. The importance of flexibility and a broad-scope in the Fund are valuable here, as it allows us to position for what we believe will outperform over the medium term. The portfolio has a significant, high conviction exposure to global banks across Japan, Europe and US. A risk is that a correction in US equities triggers a broad risk-off move in markets, which is why it is important to retain hedges and flexibility in the portfolio, such as having a relatively high cash position and allocations to safe-haven currencies, such as the Japanese yen, US dollar and Swiss franc.

Broadly, value sectors outperformed growth during September. (The two major equity sectors within value investing being banks and energy, in our view.) The strongest positive contributors to return were from the Fund's allocation to Japanese equities, particularly banks. In addition to being amongst the most attractive banks in the world from a valuation perspective, Japanese banks were further supported by the Government Pension Investment Fund's (GPIF) decision last week to not automatically reinvest redemptions into Japanese bonds, which saw Japanese bond yields and the yield curve break out. Banks were a major beneficiary of this. The portfolio's allocation to the global energy sector also some provided solid value-add, as the oil price moved higher amidst geopolitical worries and supply concerns. There remains significant catch-up potential for the energy sector to the oil price. Commodities were also a positive contributor, particularly industrial metals such as zinc and copper, which bore the brunt of trade concerns and US dollar strength, but are now beginning to rebound from low levels.

The Fund's currency basket was a detractor in September, primarily driven by our long Japanese yen position, which is in the portfolio as a hedge against the risk of a correction. As the team gain greater confidence that correction risk has eased and markets show more signs of bottoming, this hedge will be trimmed back.

Broad Australian equities also pulled back following an extended rally. The resource sector however performed well, supported by the rebound in commodities and the team has now adjusted our Australian equity exposure to be more weighted towards this sector.

Availability

Product name	APIR
CustomSuper	AMP2054AU
Flexible Lifetime - Allocated Pension	AMP2056AU
AMP Flexible Lifetime Super	AMP2054AU

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