Macquarie Balanced Growth

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To outperform the Macquarie Balanced Growth Structured Benchmark over the medium term (before fees). The portfolio aims to return a balanced level of growth and income. The option provides exposure to a diversified portfolio of growth assets, including equities and alternative assets, with some exposure to cash and fixed interest. The option employs an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Multi Sector (Balanced)
Suggested investment timeframe	5 years
Relative risk rating	Medium
Investment style	Active

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	6.9
Strategic Income*	9.0	14.6
Australian Fixed Interest	17.5	14.5
Global Fixed Interest	7.5	5.6
Inflation Linked Bonds	5.0	3.4
Australian Equities	26.0	23.5
Global Developed Markets	13.5	16.4
Global Emerging Markets Equities	12.0	7.5
Alternative Assets**	8.0	7.6

*Invests predominantly in high quality Australian and global credit securities
** may include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Commentary

The September quarter continued the general theme of the year so far: volatility and divergence between the US and the rest of the world. US data remained robust, with trade negotiations moving forward in some cases, though notably not between the US and China, and emerging markets in particular continued to be volatile and weak. The end of the quarter brought more supportive sentiment, with rebounds in equities and several emerging markets, though the underlying drivers of tighter USD liquidity and questions around growth remain an issue.

Economic data continues to be strong in the US, shaking off expectations that the country would converge towards a global economy that is showing signs of decelerating. Key US data including hourly earnings, up 2.9% YoY, and company surveys, such as the Institute for Supply Management (ISM) Manufacturing Index, up to 61.3, showed continued strength in the latter half of the quarter. In contrast, economic data from other regions generally implied a deceleration; Chinese retail sales, for example, continued the path lower set across this year, and European Purchasing Managers' Index (PMI) data remained well below late 2017 highs.

Trade policy remained a key concern. The US announced an initial 10% tariff on a further $US200bn of Chinese goods, and China in turn announced tariffs on a further $US60bn of imports. There appears to be little progress in trade negotiations between the countries, suggesting that the current impasse may mark the beginning of a much more long-term period of tension between the two powers. The US did sign a new trade agreement with Canada and Mexico, termed the United States-Mexico-Canada Agreement (USMCA), and indicated progress on tariffs and trade with the EU, another key ally that it had singled out on trade. The progress with allies likely frees up the US to be more belligerent in the trade stand-off with China.

Earnings season for Q2 in the US generally exceeded very strong expectations, with strong earnings and corporate balance sheets in reasonably good shape. The combination of robust US economic growth and tax reform has strongly driven earnings growth again, with earnings growing at around 20% YoY and revenues growing at just below double digit rates. For the key drivers of credit markets, including large banks and most BBB rated industrials, earnings have been very positive and renewed many investors' faith that these companies can grow enough to eat away historically elevated corporate leverage levels.

Emerging markets experienced renewed weakness mid-quarter, as concerns regarding Turkey drove a degree of contagion in the space. Turkey's issues centred on access to USD liquidity, US sanctions, and an unwillingness to hike rates significantly. While the US sanctions were reasonably unique to the country, other factors, particularly tighter USD financial conditions, are becoming increasingly common themes in market sell-offs this year. Into the end of the quarter, rate hikes from Turkey and International Monetary Fund engagement with Argentina helped to calm the most volatile emerging markets, though the underlying fault lines still remain.

In terms of asset allocation, the Fund held an underweight bias to growth assets such as emerging market equities and Australian equities. The Fund's global fixed income, Australian fixed income and Australian dollar exposures were also held below the strategic weights.

Outlook

Recent months have brought negative market movements, although these have mostly remained isolated to specific markets. Strong underlying growth in the US is providing a fundamental backstop to equity and credit market pricing, and while there remain significant risks, including trade policy and political tensions, it does not appear that there is a significant 'real economy' catalyst to undo the current uptick in US growth. However, the Fund Manager's concerns remain centred around financial factors, with interest rates rising and a higher USD likely to continue to cause abrasion in some markets. The backdrop of withdrawing central bank liquidity and support is a key common factor and will be an underlying influence for the foreseeable future.

The Fund Manager continues to believe there are opportunities to participate in market performance, though these are somewhat reduced given the valuations on offer, with an eye to gradually managing risk levels downward as spreads tighten further. For now, solid growth momentum and corporate earnings provide a robust basis for participating in risk market performance should valuations become attractive.

Availability

Product name	APIR
SignatureSuper	AMP0958AU#
AMP Flexible Lifetime Super	AMP0706AU#
CustomSuper	AMP0706AU#

Closed to new members

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)