

Alternative Index

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide returns similar to the Hedge Fund Research Index (Customised) benchmark on a 3 year rolling basis. The investment option is managed by K2/D&S Management Co. The option takes long and short positions using derivatives. Investments are made globally across equity, government bond, commodity and currency futures markets. The strategy does not make investments in underlying hedge strategies. Currency exposures are not hedged back to Australian dollars and are instead used as a value-add strategy. The strategy is allowed to gear using short positions – no more than 30% of the Net Asset Value of the strategy.

Investment Option Performance

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

Investment Option Overview

Investment category	Alternative Strategies
Suggested investment timeframe	5 Years
Relative risk rating	Medium
Investment style	Index

Asset Allocation	Benchmark (%)
Growth alternatives	100
Cash	0

Market Commentary

The fourth quarter was characterised by global economic and geo-political uncertainty. As we headed into the tail-end of the year, volatility continued unabated in global equity markets, with expectations of concrete post-G20 agreements remaining unresolved. Initial signs were positive, following the US-China tariff-truce; however soon after markets attempted to assimilate the implications of the arrest of Huawei Technologies CFO, Meng Wanzhou, on sanctions-busting charges and the possible impact on trade negotiations. In the continuing environment of uncertainty the market searched for additional narratives; including the possibility of a flattening yield-curve foreshadowing a recession. Against this canvas, equity markets pulled back. Further falls in equity markets remain possible and it is too early to call the extent of the general equity market correction.

In the US, elevated valuations, concerns over the impact of the trade war and tariffs, rising bond yields and uncertainty over the effect and pace of easing monetary policy all conspired to impact US equities and raise volatility. Falls were initially led by technology stocks, which later fed through to the broader market, both domestically and internationally, augmented by fears of a global slowdown. Towards the end of December, US stocks experienced particularly wild negative and positive swings, which saw further contagion in international markets.

Overall US data has been mixed with weaker momentum. In December, there was a consensus miss for non-farm payrolls, with 158,000 new jobs created against a projection of 198,000. General US job openings remain robust however, although small-business confidence has fallen, albeit from a high level.

In December, as anticipated, the US Federal Reserve (Fed) increased its interest rate range by 0.25% to 2.25-2.50%. However, the Fed also indicated interest rates are at the lower bounds of neutral rate estimates, suggesting either a slow down or pause to rises in 2019. In the US mid-terms, the Democrats won the required 218 seats to secure control of the House of Representatives.

In Asia, Japanese economic conditions remained broadly supportive given the impact from the earthquake and typhoon, despite a further downward revision to the previous quarter's GDP growth. Several business surveys remain buoyant, including the Tankan Survey of business conditions. In China, the government implemented further stimulatory policies; including a further raft of tax cuts and the People's Bank of China reduced bank reserve ratios in an attempt to mitigate the impact of the developing US-China trade war. India's composite business conditions PMI rose to its highest level in two years.

Europe continues to be a maelstrom of political discord.

In Germany, the Bavarian electorate rebelled against the Grand Coalition in regional elections, delivering a significantly reduced majority, with defectors mainly split between the Alternative for Germany and the Greens. Immigration policy remains a key issue. With a collapse in the Christian Democratic Union voter base, German Chancellor Angela Merkel called time on her tenure, saying she will not run again in 2021. Her position in the party has been taken by Annegret Kramp-Karrenbauer; although Merkel will retain her position as Chancellor for the time being. In France, public perception of the government being elitist together with slated increases in petrol taxes, resulted in demonstrations and violent clashes with police associated with the 'yellow-vests' movement. This led to an eventual climb-down by the government, which cancelled the proposed tax hikes. In Italy, the government held the line on its budget plans, resulting in a compromise Italian-European Union agreement.

The European Council signed-off on the preliminary terms of the Brexit deal from a mutual UK government and European perspective. However, any deal will need to be ratified by the UK House of Commons which is far from being assured, with criticism emanating from all political corners. The risk of a no Brexit deal remains elevated.

The European Central Bank (ECB) remains accommodative, although it will cease its quantitative easing programme this month. However, it is quite likely they will announce a new round of long-term refinancing options (LTROs) to assist Italian banks in particular. The ECB is likely to keep reference rates on hold through summer 2019, with a commitment to continue reinvesting maturing bonds for an extended period.

In emerging markets, the International Monetary Fund (IMF) has raised the risks of capital outflows as US interest rates rise. The continuing strong US dollar continues to impart stress, particularly for emerging markets funding requirements. In Brazil, Jair Bolsonaro swept to power on a right-of-centre, economic liberalist and fiscal-constraint platform amid widespread dissent from the populace on corruption and general economic decay. The spectre of social unrest in Brazil remains just below the surface and there will be an imperative to enact fiscal reforms swiftly to prevent a return to recession or unmanageable inflationary pressures.

The oil price remains under pressure as OPEC struggles to agree output targets.

Availability

Product name	APIR
CustomSuper	AMP1826AU
Flexible Lifetime - Allocated Pension	AMP1830AU
SignatureSuper	AMP1834AU
SignatureSuper - Allocated Pension	AMP1838AU
AMP Flexible Lifetime Super	AMP1826AU

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)



What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL), AMP Capital Funds Management Limited ABN 15 159 557 724, AFSL 426455 (AMPCFM), ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from the issuer or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

No other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.