AMP Capital Dynamic Markets

Quarterly Investment Option Update

31 December 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
Listed property and infrastructure	0-25
Australian fixed interest securities	0-25
Global fixed interest securities	0-100
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

Portfolio Summary

- The Dynamic Markets Fund (DMF) was negative for the month of December.
- Positive contributions came from active currency management and portfolio hedges.

Investment Option Commentary

The Fund delivered a negative return for December as markets continued to sell off into year end. As markets broke below support levels and fell to new recent lows on the back of some weaker than expected economic data and the arrest of a Huawei executive in Canada, the investment team acted decisively to reduce the Fund's exposure to growth assets to 40% (the lowest level during 2018), as well as increase the level of hedges in the portfolio, particularly through an increased allocation to Japanese Yen against the Australian dollar and shorting the most vulnerable markets, the S&P 500 and the tech sector.

These hedges and risk reduction measures were the primary positive contributor in December and insulated the portfolio against an additional ~2% in losses, had these asset allocation decisions not been implemented. These actions also took the portfolio's equity beta to the lowest in 2018, effectively capping the downside as markets continued to fall, with the Japanese Yen the best performing G10 currency and both the S&P 500 and the tech sector finishing down nearly 10% in December.

Negative contributions came from allocations to value segments of the market including Japan, financials and energy. The investment team retains conviction in the allocation to these value sectors as the drivers that supported these allocations remain in place, however, they haven't yet been rewarded as markets became overwhelmed by continued geopolitical tensions and indiscriminate selling. Energy and financials tend to be amongst the best performers during a late cycle monetary tightening environment and remain undervalued, unloved and oversold, which is aligned with our investment philosophy. We believe these allocations retain plenty of upside over the medium term.

Market Commentary

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Outlook

Looking ahead, with investor optimism and economic surprise indices washed out and equity market valuations in our Dynamic Asset Allocation (DAA) process the most attractive they have been since 2016, the stage may be set for an upside surprise. It will be important to assess the strength and quality of any rebound in markets, as this will provide indications of its durability and whether it will be time to increase exposure or take profit. For this, there are a number of signposts we're closely monitoring including credit spreads, inflation expectations, the yield curve for signs of inversion, the value/growth and cyclical/defensive ratios for market leadership and implementation of oil production cuts by OPEC. In addition, there are upcoming key events which have the potential to lead to volatility spikes, including the UK Parliamentary vote on the Brexit deal on January 15 (otherwise a hard exit on March 29), as well as trade negotiations between the US & China with the truce set to end on 1 March. The investment team will continue to prudently strive for the appropriate balance between managing downside risk and being assertive in taking advantage of market opportunities.

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
CustomSuper	AMP1935AU*
Flexible Lifetime - Allocated Pension	AMP1988AU*
SignatureSuper	AMP9041AU
SignatureSuper - Allocated Pension	AMP9042AU

* Closed to new investors

Contact Details

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What you need to know