

AMP Capital Multi Asset

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide a total return (income and capital growth) before costs and tax of 5.5% pa above the trimmed mean Consumer Price Index (CPI) on a rolling five-year basis by investing in a diversified portfolio with broad asset allocation ranges. The portfolio invests across a range of traditional asset classes such as shares, credit, cash, fixed income and property, and is further diversified by investment in alternative assets, such as infrastructure and absolute return strategies, which are generally more illiquid. Exposure to a broad range of asset classes is achieved either through investment in underlying investments or direct investment into an asset. Set within a dynamic asset allocation framework, the portfolio's asset classes and asset allocation ranges are determined with reference to the portfolio's risk and liquidity guidelines. Asset class allocation and ranges may vary at any stage of the investment cycle. There is no guarantee that the asset allocation strategy will provide positive returns at all stages of the investment cycle.

Throughout the investment cycle, when necessary, the portfolio will be rebalanced with the aim of ensuring that exposure to illiquid assets is no greater than 20% of the portfolio. The portfolio may also have exposure to currencies through both actively-managed investment strategies and risk management processes. International investments may be partially or fully hedged back to Australian dollars. The portfolio and its underlying managers or direct investments may use derivatives such as options, futures, forwards and swaps. The investment manager imposes restrictions on the use of derivatives within the portfolio and monitors the implementation of these restrictions in accordance with their risk management processes on the use of derivatives. Underlying managers or strategies in which the portfolio invests may use short selling.

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

Asset Allocation	Ranges (%)
Australian shares	0-40
Global shares	0-60
Growth alternatives	0-20
Listed property and infrastructure	0-30
Unlisted property and infrastructure	0-10
Defensive alternatives	0-40
Global fixed interest securities	0-100
Cash	0-100

Actual Allocation	%
Australian shares	6.69
Global shares	29.75
Growth alternatives	9.94
Listed property and infrastructure	2.83
Unlisted property and infrastructure	3.91
Defensive alternatives	14.31
Global fixed interest securities	23.92
Cash	9.49

Investment Option Commentary

Global markets experienced much greater turbulence in the last quarter of the year. A combination of the US Federal Reserve raising rates, slowing global growth, escalating trade tensions and collapsing oil prices sent global equity markets into a sharp correction. The MSCI World ex Australia (hedged AUD) index fell 13.6% in the fourth quarter, whilst more defensive bonds rallied 2.5% during the equity market correction. Oil prices fell by over 35% as the market was wrong-footed by the waiving of Iranian oil sanctions by the US. Active strategies also continued to struggle in the quarter, although they performed relatively better than asset markets. The Fund fell by over 5% during the quarter, a larger loss than what would normally be expected given asset market moves, but well within the Fund's risk parameters. Key detractors came from energy positions, whilst equity positions more broadly were the main drag on returns. Bond positions and hedges were the largest positive contributors.

Given a softer US central bank tone and falling oil prices, confidence in bonds behaving defensively rose in the quarter and the Fund added significant exposure through US, Australian and US inflation-linked bonds. Elsewhere, equity exposure was trimmed slightly on rallies. Defensive positions were also increased through a significant allocation to the Japanese yen, a position that performed well through the recent volatility.

Outlook

Although global growth has slowed and there are clear headwinds on the horizon, there is reason for optimism nearer term. These include, firstly, significantly cheaper markets than prior years. Europe, for example, is trading on a multiple of 12 times earnings, earnings growth of over 8% this year and next and a dividend yield of 4% that rises to almost 6% once hedged to Australian dollars. Whilst those numbers may come down over time, absent a recession, it is still a reasonably positive starting position. A second favourable change has been the clearly softer tone from the US Federal Reserve, who, in signalling that they are aware of market volatility, offers potentially more confidence to markets that they will only be hiking rates into strength. A third positive is the likelihood that oil prices are stabilising amid OPEC supply cuts. Whilst it is a positive to have cheaper energy cost, free-falling oil provides a headwind that impacts revenues and, for example, credit quality. This dynamic has played out quickly and offers opportunities to re-enter credit markets. Finally, a fourth positive is the likelihood that US and global growth is a bit closer in 2019. Unbalanced growth creates higher volatility and liquidity challenges that have unsettled many of the alternatives' strategies during 2018. It would be highly unusual for these strategies to underperform again and the environment should be a little better for them to re-establish their excellent longer-term track records.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1709AU
AMP Flexible Super - Retirement account	AMP1768AU
AMP Flexible Super - Super account	AMP1756AU
CustomSuper	AMP1709AU
Flexible Lifetime - Allocated Pension	AMP1717AU
SignatureSuper	AMP1734AU
SignatureSuper - Allocated Pension	AMP1743AU
SignatureSuper Select	AMP1734AU

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