Blackrock Global Allocation

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To maximise capital growth and investment income returns by investing in global shares, fixed income and cash. The investment manager will generally seek to invest in shares that are believed to be undervalued and expected to provide a high total return relative to alternative equity investments.
The strategy can also invest in all types of debt securities, although the investment manager may only invest up to 35% of the portfolio's assets in junk bonds, corporate loans and distressed securities. The strategy may short sell securities and use financial derivatives to protect against risks or enhwance returns.
Currency is actively managed around a fully-hedged Australian dollar benchmark. The strategy is not bound by specific asset allocation ranges or diversification targets and has full flexibility to invest at any spectrum of its asset allocation range. BlackRock may vary the portfolio in response to changing market conditions and economic trends.
wThe performance benchmark is a weighted average of the Australian dollar-hedged returns provided by market indices in underlying asset classes.

Investment Option Performance

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

Investment Option Overview

Investment category	Multi Sector
Suggested investment timeframe	5 years
Relative risk rating	5 / Medium to high
Investment style	Specialist

Asset Allocation	Benchmark (%)	Actual (%)
Equities	60	59.49%
Fixed Income	40	31.38%
Commodity-Related	0	1.98%
Cash Equivalents	0	9.15%

Top Holdings	%
Consumer Discretionary	8.58%
Consumer Staples	5.17%
Energy	4.83%
Financials	6.34%
Healthcare	6.18%
Industrials	8.99%
Information Technology	4.46%
Materials	6.09%
Real Estate	3.16%
Telecom Services	1.59%
Utilities	1.95%
Index-Related	0.15%

Regional Allocation	%
North America	59.99%
Europe	10.53%
Asia	15.62%
Latin America	2.33%
Africa/Mid East	0.40%
Commodity-Related	1.98%
Cash Equivalents	9.15%

Portfolio Summary

- Overweight Asia, Underweight Europe, Australia, US
- Overweight communication services, energy, healthcare. Underweight financials, information technology, industrials, consumer discretionary.
- The fund's cash position serves as a diversifying asset class to help manage risk in the portfolio during periods of market volatility, while providing reserves that can be put to work as better opportunities arise. At an annualized yield of ~2.40%, U.S. Treasury bills are now providing a meaningful yield. In addition, BlackRock also have exposure to short-term bills in Japan (and hedge the JPY currency exposure back to USD), with current annualized yields of ~50 bps above U.S. Treasury Bills.

Investment Option Commentary

BlackRock have positioned the portfolio more defensively to reflect a less benign environment for risk assets longer-term. As such, they continue to manage the overall risk profile of the fund more defensively. Within equities, BlackRock are focused on stocks more defensive in nature that feature some combination of low economic cyclicality, pricing power, and low financial leverage as they believe companies with these characteristics will tend to be more resilient during periods of market volatility and less sensitive to a rise in interest rates. Within fixed income, they are also focused on quality, with the majority of exposure in U.S. Treasuries. In addition, BlackRock believe it is important to diversify equity risks more broadly and hold exposure to cash, gold, the U.S. dollar and Japanese yen to help manage volatility.

BlackRock further reduced portfolio beta by trimming exposure to equities within Financials and Communication Within consumer discretionary, BlackRock added exposure to idiosyncratic opportunities across the retailing and services industries which they believe to be more defensively positioned.

Market Commentary

The fourth quarter of 2018 proved to be a challenging period for financial markets which showed a sea of red across most international share markets. Signs of tightening financial conditions, ongoing global trade tensions and weaker Chinese economic activity data raised concerns regarding the outlook for global growth. The sell-off in equities was widespread and pushed the annual return for most share markets around the world well into negative territory, making 2018 the worst year for global equities since 2008. Equity volatility measures such as the VIX increased significantly over the quarter and investor sentiment plummeted. The general risk-off tone led to a rotation into more defensive sectors and fixed income assets outperforming equities.

Outlook

BlackRock expect global growth to slow next year and see U.S. growth stabilizing at a much higher level than other regions, even as the effects of 2018's fiscal stimulus fade. Markets are vulnerable to fears that a downturn is near, even as BlackRock sees the actual risk of a U.S. recession as low in 2019. Global earnings growth is also set to moderate in 2019, tracking the more subdued growth outlook.

The fund manager sees the process of tighter financial conditions pushing yields up (and valuations down) set to ease in 2019. Why? U.S. rates are en route to neutral — the level at which monetary policy neither stimulates nor restricts growth. BlackRock estimate the current neutral rate at around 3.5%, right in the middle of the 2.5%-to-3.5% long-term range identified by the Fed and they expect the Fed to pause its quarterly pace of hikes amid slowing growth and inflation in 2019.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1815AU
AMP Flexible Super - Retirement account	AMP1785AU
AMP Flexible Super - Super account	AMP1791AU
CustomSuper	AMP1815AU
Flexible Lifetime - Allocated Pension	AMP1809AU
SignatureSuper	AMP1803AU
SignatureSuper Allocated Pension	AMP1797AU

Contact Details

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

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