

# Responsible Investment Leaders Conservative

Quarterly Investment Option Update

31 December 2018

## Aim and Strategy

To provide a total return (primarily income with some capital growth) after costs and before tax, above the return from the relevant benchmarks of the underlying investments on a rolling three-year basis. The portfolio invests in all asset classes, with a core of cash and fixed interest and some exposure to shares and property. With the exception of cash, the portfolio is managed using a responsible investment approach.

## Investment Option Performance

To view the latest investment performances please visit [www.amp.com.au](http://www.amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Multi-Sector
<b>Suggested investment timeframe</b>	3 years
<b>Relative risk rating</b>	Low - Medium
<b>Investment style</b>	Multi-Manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Global shares	15
Australian shares	11
Listed property & infrastructure	5
Unlisted property & infrastructure	2
Global fixed interest	24
Australian fixed interest	22
Defensive alternatives	2
Cash	19

<b>Actual Allocation</b>	<b>%</b>
Global shares	16.29
Australian shares	10.68
Listed property & infrastructure	4.45
Global fixed interest	40.21
Australian fixed interest	27.91
Cash	27.91
Others	0.46

## Portfolio Summary

- The Fund produced a negative return over the December quarter, but produced a positive return over the year.
- The diversified fixed income allocation made a positive return, but this was outweighed by negative returns posted by the international shares, Australian shares and global listed property allocations.
- The Fund remains underweight fixed income in favour of cash.

## Investment Option Commentary

The Fund produced a negative absolute return over the December quarter, following sharp declines in domestic and international share markets. It was a difficult period for active managers and the Fund slightly underperformed its benchmark. Over the year however, the Fund produced a positive return and remains ahead of benchmark, following strong performances earlier in 2018.

The diversified fixed income allocation made a positive return, as bond yields declined. However, each of the underlying managers underperformed their benchmarks, and the Fund's underweight exposure detracted from relative returns.

The international shares allocation posted a negative return, matching its benchmark over the quarter. The underlying managers C WorldWide and AMP Capital outperformed their respective benchmarks, while Boston Partners and Lazard underperformed. The exposure to emerging markets added value as they outperformed developed markets over the quarter. At a sector level, stock selection in consumer staples and information technology were positive performance drivers. Within consumer staples, holding no exposure to tobacco companies added significant value. On the other hand, stock selection in the consumer discretionary and materials sectors were the main detractors from relative performance. The managers continued to engage with companies on governance and environmental issues over the period.

The Australian shares allocation posted a negative return and underperformed its benchmark over the quarter. The underlying managers Ausbil, Bennelong and AMP Capital outperformed their respective benchmarks, but not enough to offset DNR's underperformance. DNR's underperformance can primarily be attributed to stock selection, with a few key holdings, most notably BWX and Lend Lease, experiencing earnings downgrades.

The global listed property allocation also posted a negative return, but outperformed its benchmark over the quarter.

## Outlook

The weak end to 2018 has added an air of uncertainty for investors heading into 2019. This is due to the US-China trade war, concerns about global growth, geopolitical issues and global monetary conditions. Nonetheless, economic indicators continue to show that underlying economic growth remains healthy. Company earnings, business confidence and employment across developed economies remain positive, and monetary policy, while tighter, remains at historically accommodative levels.

Australian shares remain exposed to a Chinese slowdown and the recent global sell-off. Banking profitability is likely to be constrained by increased regulation and credit will continue to be subdued as lending standards tighten.

Very low, though rising sovereign bond yields point to low, medium-term returns. The easing of deflationary pressures, the gradual reduction in spare capacity, and a shift in policy focus from monetary to fiscal stimulus, primarily in the US, indicate yields are likely to steadily trend higher. Emerging market economies continue to experience some outflows.

Australian government bonds and corporate credit remain relatively attractive from an international and yield perspective. Conflicting economic pressures and a low inflationary environment mean it is too early to be considering interest rate hikes. The housing market also remains a concern.

The Fund remains underweight fixed income in favour of cash.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1034AU
AMP Flexible Super - Retirement account	AMP1372AU
AMP Flexible Super - Super account	AMP1501AU
CustomSuper	AMP1034AU
Flexible Lifetime - Allocated Pension	AMP1023AU
Flexible Lifetime - Term Pension	AMP1044AU
Flexible Lifetime - Investments (Series 1)	AMP1057AU
Flexible Lifetime - Investments (Series 2)	AMP1435AU
SignatureSuper	AMP0978AU
SignatureSuper - Allocated Pension	AMP1174AU

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