Responsible Investment Leaders Balanced

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the relevant benchmarks of the underlying investments on a rolling five-year basis and to provide a rate of return of 3.5% above inflation (Consumer Price Index (CPI)), after costs and before tax, over a 5 year period.

The portfolio invests in all asset classes, but with an emphasis on growth assets (shares and property). With the exception of cash, the portfolio is managed using a responsible investment approach (see additional information about Responsible Investment Leaders for more information).

Actual allocation	%
International shares	34.26
Australian shares	24.55
Listed property & infrastructure	3.80
Unlisted property & infrastructure	7.59
Growth alternatives	1.51
Fixed interest	22.23
Cash	6.06

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 to High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
International shares	33
Australian shares	25
Listed property & infrastructure	4
Unlisted property & infrastructure	9
Growth alternatives	2
International fixed interest	12
Australian fixed interest	13
Cash	2

Fund Performance

The RIL Balanced Fund produced a positive absolute return in the first quarter of 2019. Performance was sufficiently strong to offset the losses experienced in the December quarter of 2018. On a yearly basis, the Fund is slightly below benchmark, due to the difficult market conditions in 2018 and listed managers underperforming their standard benchmarks.

The RIL Australian Shares Fund outperformed over the quarter. Stock selection was the main contributor to performance, particularly within consumer discretionary, financials and materials. Sector allocation also added value during the quarter, driven by underweights to consumer staples and financials and an overweight to information technology. All the underlying managers outperformed, although DNR was the standout (+300bps). Our ESG index exposure also outperformed.

The RIL International Share Fund underperformed over the quarter, but still delivered strong absolute returns. It was a difficult quarter for active managers, with C WorldWide the only manager that outperformed in the quarter. Value, as an investment style, was out of favour, while growth stocks in the markets rebounded strongly from the sharp sell-down in late 2018. Stock selection across our underlying managers was the primary detractor. From an individual stock perspective, the overweight to Sony within the consumer discretionary sector was the largest detractor. Sony's share price fell following the announcement by Alphabet launching Stadia, a cloud gaming streaming platform, this year.

The Diversified Fixed Income portfolio performed above its benchmark. Positive returns from both international credit manager Alliance Bernstein and Australian sovereign bond manager AMP Capital provided a positive lift to relative returns. RIL's global REIT exposure also produced a very strong return of around 14%, in addition to comfortably outperforming its benchmark over the quarter.

Market Review

After heavy falls in the December quarter, global share markets posted extremely strong gains in the March quarter, the MSCI World ex Australia index finishing up by 12.66%. While markets around the globe remain optimistic on the back of reasonably good global economic growth, a somewhat dovish US Federal Reserve (Fed), improving US trade relationships, strong resource prices and Chinese economic stimulus, this is being balanced by some caution creeping in around an inverting US yield curve, softening (but still reasonable) US growth and relatively high price/earnings ratios - particularly in the US. Chinese shares were the clear standout over the period, as the CITIC300 index soared 27.63% on the back of positive trade talks with the US and stimulus measures introduced by the Chinese government. Most other major markets saw returns near or beyond double-digits for the period, as a wave of optimism seemed to make the falls of late 2019 a distant memory. Despite the markets' rise, broader risks to global growth have arguably not appreciably changed over the three months, leading many commentators to urge caution, after the strong price rises. Emerging markets were also strong over the period, the MSCI Emerging Markets index returning 9.84% as resource prices rose and the positive sentiment from developed markets spilled over, despite ongoing currency and debt issues that many developing economies continue to face. (All indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)
In line with broader global equities, Australian shares posted very strong gains in the March quarter, after significant falls in late 2018. The S&P/ASX200 total return index finished up by 10.89% for the period. The bulk of the quarter's gains came in January and February, as both the banking Royal Commission and domestic reporting season proved to be largely free of any negative surprises, allowing global bullish sentiment to remain the prime driver of the domestic market. Despite the strong performance, uncertainty remains around the upcoming Federal Election and the Labor opposition's proposed tax changes, which include the removal of franking credits for individuals who do not pay tax or receive a tax refund, mainly impacting self-funded retirees who largely own shares for income purposes. Speculation of an interest rate cut from the Reserve Bank (RBA) has also increased, which is also positive for Australian equities, though balancing this, fears of a pull-back in global growth remain, particularly in the US and parts of Europe.

Global government bond yields fell in January amid a rebound in risk assets. Led by the US, market expectations pivoted to a pause in US Fed rate hikes after the central bank signalled a more dovish tone. Yields were largely rangebound in February, with geopolitical influences such as improved confidence of a positive resolution to the US-China trade conflict appearing to outweigh largely poor economic data releases and further economic growth forecast downgrades by central banks. March saw a significant bond market rally, with fears of a global growth slowdown gaining further traction as softer economic data releases on balance were accompanied by a shift to a more dovish tone from key central banks. Notably, markets saw an inversion of the 3-month to 10-year US Treasury yield curve late in the period, an event which can sometimes be a signal for recession. The US 10-year bond yield ended the quarter at 2.41%, while the German 10-year bond yield and its Japanese counterpart ended at -0.07% and -0.08% respectively.

Early in the March quarter, Australian government bonds largely mirrored their overseas counterparts as risk assets rebounded, with the domestic rally also reflecting growing concerns around house prices and ongoing mixed economic data releases including weak December quarter inflation. Diverging from offshore moves, domestic bond yields continued to fall in February, as markets reacted to the RBA changing its cash rate guidance to a neutral stance lowering its economic growth and inflation forecasts. Bond yields continued to fall in March on the back of fears of slowing global economic growth and dovish central banks. Furthermore, local bonds rallied amid the release of largely soft domestic economic data, including a disappointing December quarter GDP reading. Similar to their US peers, Australian bonds saw an inversion of the 3-month to 10-year yield curve late in the period. The Commonwealth Government 2-year bond yield ended the quarter at 1.46%, while the 10-year bond yield ended at 1.78%.

Outlook

We believe the gains made in 2019 still require an upturn in global growth to maintain momentum. At present we expect inflation in the US to steadily move back to its normal range. While growth has slowed, there are some promising signs that headwinds are turning. The Chinese desire to promote growth through stimulus measures and the opportunity to resolve Brexit, would likely provide a boost to confidence and equity markets. Domestically, Australian shares remain exposed to a potential growth slowdown and housing concerns. Uncertainty also remains around the upcoming Federal Election and the Labor opposition's proposed tax changes, which include the removal of franking credits for individuals who do not pay tax or receive a tax refund. As such, we have some downside protection in place on Australia and remain slightly underweight in favour of global equities. Very low bond yields point to low medium-term returns. Monetary policy globally remains generally dovish, given a recent slowdown in positive economic data releases. Domestically, the Reserve Bank of Australia has continued to implement a short-term neutral policy in regard to the timing and direction of interest rate changes, keeping interest rates low.

Looking ahead, our expectation remains for low to mid-level returns, with risks to both the upside and downside. The Fund remains somewhat conservatively positioned, in the absence of a clear direction in market fundamentals.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1033AU
AMP Flexible Super - Retirement account	AMP1371AU
AMP Flexible Super - Super account	AMP1500AU
CustomSuper	AMP1033AU
Flexible Lifetime - Allocated Pension	AMP1022AU
Flexible Lifetime - Term Pension	AMP1043AU
Flexible Lifetime - Investments (Series 1)	AMP1056AU
Flexible Lifetime - Investments (Series 2)	AMP1434AU
SignatureSuper	AMP0977AU
SignatureSuper - Allocated Pension	AMP1173AU
SuperLeader	AMP1884AU

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