Macquarie Balanced Growth

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

To outperform the Macquarie Balanced Growth Structured Benchmark over the medium to long-term capital growth, together with some income, (before fees) by investing in a balanced level of growth and defensive assets The option provides exposure to a diversified portfolio of growth assets, including equities and alternative assets, with some exposure to cash and fixed interest. The option employs an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	11.5
Strategic Income*	9.0	10.2
Australian Fixed Interest	17.5	7.4
Global Fixed Interest	7.5	7.7
Inflation Linked Bonds	5.0	3.4
Australian Equities	26.0	24.3
Global Developed Markets	13.5	22.7
Global Emerging Markets Equities	12.0	2.7
Alternative Assets**	8.0	10.1

* Invests predominantly in high quality Australian and global credit securities
** may include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Performance

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

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	6/ High
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The Portfolio underperformed its strategic asset allocation benchmark, which was driven by the Fund's overweight position to defensive assets.

Market sentiment continued to dampen driven by heighten inflation and the aggressive monetary policy tightening trajectory. Throughout June quarter the manager continued to observe significant volatility across different asset markets, with wide trading ranges for most. In the past 6 months, both defensive and growth assets have experienced significant drawdowns, performing with a correlation close to 1. The manager does not believe this relationship can be sustained in the coming months as market participants start to price in a greater risk of recession. As a result, the manager's defensive asset allocation will perform a key role within its Portfolio. During the quarter, the manager also continued to conduct a broad-based reduction in the Portfolio's equity exposure. These asset allocation changes helped buffered some of the market volatility.

The manager continues to expect further downside risks to growth assets to persist. As a result, the manager has moved the Portfolio close to a very defensive position. It is important the emphasize that the defensive bias is strategic in nature and will likely be maintained for a significant period of time, unless global central banks shift less aggressive in their monetary tightening. Within the growth asset exposure, the manager has reduced Australian equity, international equity and international property exposures as a further step towards shifting the asset allocation toward maximum defensive. In the coming months, the manager is likely to make one or two final reductions in its growth asset allocation.

Market Commentary

Inflation is the 'problem' facing central bankers and their action during the second quarter illustrated their commitment to bringing inflation back down to target ranges. Globally, central bank target rates rose throughout the quarter, though the Bank of Japan stands in contrast by remaining committed to its yield curve control target. Whilst inflation and central bank action remain dominant themes, for asset markets there has been a rapidly emerging concern that this combination will push economies into recession in 2023. Economic data released during the quarter has begun to suggest that growth is already slowing. With inflation being underpinned by a second supply shock stemming from the war in Ukraine, asset markets fear central bankers are heading for a policy mistake by over-tightening. The manager has already seen consumer confidence drop lower to well below average levels, and parts of the housing market have begun to turn. There have been some tentative signs, in spending data too, of some softening demand, and this is a difficult investment climate where volatility will continue.

Outlook

Recent economic releases indicated that global inflation continues to surprise to the upside. Global central banks have started aggressive monetary tightening via hiking cash rate and shrinking balance sheets – namely quantitative tightening. Global financial markets have responded with lower asset price valuations, as a result of tightening financial conditions.

Despite the aggressive monetary tightening, the inflation trajectory remains well above global central banks' price stability target. Importantly, global economic growth, retail sales as well as production indices all starting to show signs of weakening. In a financial system flushed with debt, coupled with a potential decline in fundamentals, as well as a rise in interest rates will likely lead to increased credit risks, and downward pressure on corporate earnings, which may weaken economic growth and labour markets. In the manager's view, the 'correction' experienced in growth asset markets year to date has not yet fully priced in these risks. As a result, the manager sees further downside risk to growth asset returns. On the other hand, in an environment where economic growth, earnings and labour market conditions are deteriorating the manager struggles to see how central banks would be able to continue their aggressive monetary tightening trajectory. As a result, the manager sees opportunities emerging within fixed income markets pertaining to the current level of interest rates and the shape of the yield curve.

The market developments throughout June quarter reinforce the manager's view for a challenging outlook for both growth and defensive assets in 2022. In the manager's view, the faster, higher and broader the central bank rate hikes the greater the probability for recession. In navigating this uncertain environment, the manager continues to implement a diversified portfolio, including an expanded allocation to alternatives, adopting a highly flexible asset allocation process, with a view to continue to increase the allocation to fixed income securities in the coming months, as these begin to offer increasingly attractive yields.

The manager anticipates further downside risks ahead and accordingly are positioning the portfolio defensively. The manager believes by focusing on income generation as well as capital protection will offer us ample room to rotate the portfolio offensively should such opportunities arise. The manager believes that this approach is appropriate based on the manager's expectations for inflation, monetary policies, and economic growth.

Availability

Product name	APIR
SignatureSuper*	AMP0958AU

*Closed to new investors

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