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December 2011

Future Directions Growth Fund - Wholesale

Investment objective

To provide a rate of return of 3.75% above inflation after management costs over a 5 to 7 year period. To provide a total return (income and capital growth) after costs and before tax, above the Fund's performance benchmark.

Minimum suggested time frame

5 to 7 years

Fund description

The Fund aims to generate high returns over the long term through investment in a diversified range of asset classes. The Fund focuses on shares and also has exposure to property, fixed interest and alternative assets.

Performance benchmark

The average weighted return of the market indices used to measure the performance of the asset classes in which the fund invests.

Inception date

10 Apr 2002

Fund size

\$1,454.35 million

Management costs

0.8182% plus possible performance fees

Distribution frequency

Quarterly

Buy/sell spread

+0.24/-0.24

Investment approach

The Fund is designed to access a mix of asset classes and blend specialist investment managers from around the world, with the aim of maximising returns and managing levels of risk. We take a four-stage investment approach - setting objectives, targeted manager selection, portfolio construction and implementation, and ongoing portfolio and manager review.

Asset Allocation

%	Current
Australian Equities	37.29
International Shares	31.46
Alternative Assets Growth	11.92
International Listed Property	6.16
Australian Fixed Interest	3.33
Alternative Assets Defensive	3.15
Cash	2.37
International Fixed Interest	2.12
Inflation Linked	1.46
Direct Property	0.74

Performance – as at 31 December 2011

Inception Date – 10 Apr 2002

%	1 mth	3 mth	1 yr	3 yr	5 yr	incept
Before tax and fees	n/a	2.63	-4.48	7.19	-2.01	4.43
Benchmark	-0.12	3.21	-4.43	6.88	-0.86	4.60
Distribution	0.70	0.72	7.12	4.56	5.66	6.09
Growth	-0.86	1.69	-12.37	1.76	-8.48	-2.52
Total return - after fees	-0.16	2.42	-5.25	6.32	-2.83	3.57

Past performance is not a reliable indicator of future performance. Performance is annualised for periods greater than one year.

Total returns are calculated using the unit price which uses the net asset values for the relevant month end. This price may differ from the actual unit price for an investor applying for or redeeming an investment. Actual unit prices will be confirmed following any transaction by an investor. Returns quoted are before tax, after Class 'O' fees and costs, assume all distributions are reinvested and are annualised for periods greater than one year.

Performance and Activity

Despite ongoing financial market volatility, the FD Growth Fund generated a positive return over the quarter, although it underperformed its benchmark. The Fund's property holding added value, as did an overweight cash holding and an underweight exposure to international equities. However, unfavourable stock selection within the Australian equity portfolios detracted from relative performance. The Fund's positioning in fixed income assets had a minimal impact on the Fund's return. However, the Fund's modest underweight to the Australian dollar detracted from performance over the period after the currency rose over 5% against the US dollar. Stock selection in the sector funds generally detracted from performance, with underperformance in the defensive hedge fund, Australian and core international equities portfolios. This was somewhat offset, however, by outperformance in the infrastructure component.

We added to the Fund's Australian equities and emerging markets positions in response to improving signals in our dynamic asset allocation model. Both were funded from cash. Overall, the Fund remains positioned for ongoing volatility, with a modest underweight to developed international equities, and an overweight allocation to defensive assets, particularly cash but also Australian fixed interest.

The active Australian share portfolio underperformed during the quarter, primarily due to unfavourable stock selection within the Materials, Health Care, Information Technology and Utilities sectors. Underweight exposures to Financials and Utilities also detracted value. In addition, the Fund's allocation to the Future Directions Australian Small Companies Fund contributed to the underperformance, despite adding value relative to the S&P/ASX Small Ordinaries Index. From a manager perspective, Ausbil Dexia and Bennelong Funds Management outperformed whereas the JCP Investment Partners, AMP Capital Value Plus and Perennial Investment Partners portfolios underperformed.

The international shares portfolio underperformed over the December quarter. The underperformance was attributable to all managers except for the portfolio's yield focused manager, Epoch. The Fund's risk management overlays provided a significant offset to underperformance. Overweight exposures to Telecommunication Services and Information Technology were the key sources of underperformance. Stock selection in Consumer Discretionary and Energy also detracted from returns.

Within the Australian bond portfolio, both AMP Capital and Vianova Asset Management (Vianova) outperformed over the quarter, delivering a positive contribution to returns within this asset class. AMP Capital retained its preference for short duration positions in Australian and New Zealand interest rate markets. However global concerns resulted in the market pricing in a stronger policy response than was felt appropriate, considering the balance of probabilities and this position detracted from relative performance. However, the currency and interest rates portion of the Fund contributed positively to overall performance. Vianova's underweight duration positioning weighed on returns, however security selection and yield curve positioning were positive contributors.

The international bond portfolio underperformed the benchmark over the quarter after underlying managers maintained a short duration position. Bond yields rallied due to deteriorating situation in European. The best performing managers were Wellington (Global Credit) and Franklin Templeton Investments (Global Aggregate). The worst performing managers were AllianceBernstein (Global Treasury) and Mondrian Investment Partners (Global Treasury).

The defensive hedge fund portfolio underperformed during the December quarter. Global indices of hedge funds produced mixed returns for the quarter, with strong gains in October offset by falls in November and December. Defensive positions within the portfolio helped to limit its underperformance. The portfolio's underperformance was mainly due to strategies focused on global macro, Asia-based events, commodities and distressed securities. The commodity strategy was affected by short spikes in risk aversion in commodity markets as a result of minor news flows. One global macro manager detracted from performance due to mistiming entry and exit points for key themes in their strategy due to the increasingly synchronous global market movements. Partially offsetting this were favourable contributions from emerging market macro strategies, credit and financial equity specialist strategies. The equity financials specialist also benefitted from the bank deleveraging theme in Europe, one which they expect to continue to exploit going forward.

Market Commentary

Global share markets continued to experience significant volatility over the December quarter, although within the same range since early August. Shares rebounded in October, lifted by indications that European authorities were moving to recapitalise the region's banking sector and by US economic data and profit results which confirmed that the US economy was still growing. Markets then fell back due to the lack of action from the G20 to address the European sovereign debt crisis and the failure of the US budget committee. In early December shares surged on central bank action and hopes that a fiscal union in Europe would occur, but then fell back on worries leading up to the European leaders' summit. Late in the month share markets rebounded helped by better news out of Europe and the US. The leading measure of global share market performance, the MSCI World (ex-Australia) Accumulation Index, returned 8.0% in local currencies (or 2.0% in unhedged Australian dollar terms). The US S&P 500 Accumulation Index returned 11.8% in local currency terms. In the European region, the Eurostoxx Accumulation Index returned 5.6% and the UK FTSE 100 Accumulation Index returned 9.4%, both in local currency terms. Shares in Asia fell back, with Japan's Topix Accumulation Index returning -4.2% and China's S&P/CITIC 300 Total Return Index returning -8.8%.

International bond markets were volatile over the December quarter. Bonds rallied in October on positive US economic data releases and in anticipation of a comprehensive proposal from the European Union Summit. Bond markets then fell back in early December on news that central banks worldwide had implemented measures to boost liquidity, before moving higher again towards quarter-end on concerns about Europe's ability to implement tighter fiscal controls. The US ten-year

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bond yield rose by 12 basis points (basis points) to 1.88%, while Japan's ten-year bond yield fell by 4 basis points to close at 0.99%. In Europe, the UK ten-year bond yield fell 37 basis points to close the quarter at 1.98% while Germany's ten-year bond yield rose by 1 bp to 1.83%.

Outlook

The economic outlook for North America continues to advance with improving consumer confidence, housing and jobs data. The region has benefitted from the 'risk-off' trade in recent months and is therefore valued on a more relative basis than Europe and the Asia Pacific regions. Conversely, the selloff that occurred in 2011 has created attractive entry points throughout Europe and we are strategically monitoring opportunities to capitalise on deep discounts throughout the region in high quality companies. We acknowledge that the threat of recession remains greatest in the European region and as such a quality bias is important. However, we believe the regulatory environment in many European countries provides greater certainty than many emerging market economies.

The outlook for Australian shares is relatively more favourable than their global counterparts thanks to a combination of better fundamentals, the prospect of interest rate cuts in the months ahead and a falling Australian dollar. Government bonds in major global countries could still rally further in the short term and are a good diversifier. However, yields are very low so expect low medium-term returns. Bond yields in Australia are likely to remain low in the short term as economic data remains weak, but should trend higher in the medium to long term as the economic outlook improves and the benefits of the strength in the mining sector filters through to the broader economy.

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