

# AMP Capital Investors Diversified Funds

## What factors drove performance of AMP Capital Investors' Diversified Funds in 2009?

A combination of factors drove the underperformance of the funds relative to comparable funds in 2009:

- Direct property valuations fell in a lagged response to the global financial crisis. As many other fund managers had minimal direct property allocations, this particularly affected performance against other diversified funds. Direct property valuations had a double impact on the funds because not only had they fallen in value, but the illiquid nature of direct assets made it harder for the funds to move into equity markets and other growth assets which performed well in 2009.
- Similarly, our direct investment unit lost value in contrast to its absolute return long term benchmark objective of +11% pa. This was a reflection of write downs in valuations for various private equity and infrastructure investments, again in lagged response to the previous year's slump in financial assets.
- Our total return, or hedge fund exposure, while modest, underperformed its absolute return objective.

While the above factors tended to dominate the relative return of the diversified options, there were some positive results. Our international share and international bond portfolios which were hit hard in 2008, rebounded in 2009. Both sectors along with Australian shares outperformed their benchmarks.

## What is the outlook for AMP Capital Investors' Diversified Funds in 2010?

Our view remains that share markets and other listed growth oriented assets have embarked on a cyclical recovery that will probably run for a few years. However, there are still many uncertainties surrounding the recovery – including the removal of policy stimulus, high public debt levels and still high house-hold debt levels in countries like the US and Australia. We are expecting these concerns to cause bouts of volatility this year. However, on the positive side, leading economic indicators in both developed and emerging countries are pointing to further economic recovery ahead. The US labour market appears to be on the mend and this is expected to help consumer spending going forward. The emerging world also looks very strong and doesn't have the debt problems of many developed countries. A continued economic recovery will help to ensure that the emerging recovery in corporate profits will continue. This is all occurring at a time when shares are not expensive, global interest rates are still low and investors generally are underinvested in shares. Our broad positioning is as follows:

- overweight share markets with a focus on markets that we believe have the greatest potential. This includes Asia and other emerging share markets generally as well as Australian shares;
- neutral listed real estate, although this is up from underweight a year ago;
- overweight in commodities;
- overweight in growth oriented currencies like the Australian dollar; and
- overweight in credit investments and underweight government bonds.

Following large falls on listed markets around the world in 2008, 2009 also started out on a bleak note with share markets falling around 10% in the first quarter. However, following efforts by governments across the globe, most markets bottomed in March. Since that time, global credit markets have settled down, while share markets posted gains of around 50% or more from their lows, delivering diversified option returns of around 10-20% in 2009, depending on exposure to listed markets. On the other hand, after holding up across 2008, unlisted assets – such as property and private capital – suffered significantly in 2009. Lags in valuations meant the impact of the global financial crisis was delayed. This saw direct property capital values fall by around 20%, providing returns of between -10% to -15% when adjusted for rental income. Similarly, private equity and infrastructure have suffered falls of between 10% to 20%, with infrastructure slightly outperforming private equity.

With a significant exposure to direct assets, the AMP Capital Investors Diversified Options have been impacted relative to many other funds. However, we believe that the performance of direct assets will start to improve in 2010, a move that should benefit overall performance.

### Fund performance as at 31 December 2009

	1 year %	3 years %pa	5 years %pa
AMP Balanced Growth Option*	13.8	-2.0	5.1
Median performance of Growth Funds in the Intech Investment Consultants Super Survey	15.7	-1.1	4.9
Rank/number of funds	31/44	29/40	15/38
AMP Conservative Option*	8.0	1.3	4.7
Median performance of Capital Stable Funds in the Intech Investment Consultants Super Survey	9.3	2.2	4.7
Rank/number of funds	22/28	21/27	13/26

\* Investment Linked Superannuation funds. All returns are after superannuation tax and after wholesale management fees. Past performance is not a reliable indicator of future performance. Source: Intech Investment Consultants Super Survey.

Following the annual strategic asset allocation review for our Diversified Funds, we are likely to increase our exposure to emerging markets at the expense of traditional international shares. This is a reflection of their superior risk/return profile. We are also likely to reduce the benchmark exposure to foreign exchange, as we see further upside in the value of the Australian dollar over the medium term. The pull back in share markets, particularly emerging markets, and the value of the Australian dollar so far this year provides the opportunity to make these shifts.

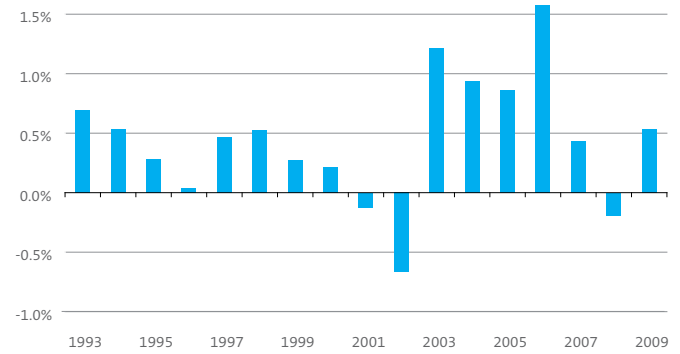
Importantly, unlisted asset valuations appear to be bottoming, with the upwards momentum in property yields appearing to have come to an end. We believe our strategic allocation to direct assets will benefit the Funds over the longer term. Despite their poor performance over the past year, we believe that these assets substantially enhance the risk/return characteristics of an investment fund over long periods. This is because they tend to outperform at different stages of the market cycle to listed assets. As unlisted assets start to recover, we expect that the relative performance of our Diversified Funds is likely to improve.

### What are the opportunities for the AMP Capital Investors' Diversified Funds in 2010?

Our Diversified Funds will retain the following key features:

- Active strategic and tactical asset allocation – historically this has been a key area of value add for these funds and we will continue to leverage off our asset allocation skills to enhance client returns. In particular, our ability to undertake tactical asset allocation has been enhanced by a move to undertake all tactical asset allocation via a Global Tactical Asset Allocation Trust. See the chart following. This enables us to take positions in a broader range of assets and to be more nimble in doing so.
- Style diversified equity exposure – both in terms of Australian shares and global shares.
- Lead manager model – about 70% of the funds are managed in-house, but external managers are also used. Under the newly formed Multi Asset Group, we will be making better use of our skills to manage underlying manager exposure. This will improve the value add potential from the management of the underlying sector portfolios, including those managed internally.
- Direct investment in property, private equity and infrastructure – we believe that these assets substantially enhance the risk/return characteristics of our investment funds over long periods.

### Annual tactical asset allocation (TAA) value added for the Balanced Growth Option, 1993 – 2009.



Source: AMP Capital Investors

### Who are the key people involved in running AMP Capital Investors' Diversified Funds?

AMP Capital Investors' Diversified Funds have a dedicated team of investment strategists and fund managers focused on achieving the best performance for the Funds. These investment strategists and fund managers are directly accountable for the performance of the Diversified Funds. With respect to the management of the individual asset classes, a major part of AMP Capital Investors' substantial resources in Australian equities, fixed interest, listed and direct property, private capital and infrastructure are utilised in managing the individual asset classes, along with a range of leading international investment specialist organisations for international equities and international fixed interest.

**Dr Shane Oliver**  
 Head of Investment Strategy and Chief Economist  
 AMP Capital Investors

**Colin Gibson**  
 Senior Fund Manager, AMP Funds  
 AMP Capital Investors

## Contact us

If you would like to know more about how AMP Capital can help you, please visit [ampcapital.com.au](http://ampcapital.com.au), or contact one of the following:

**Financial Planners**      **Contact your Business Development Manager or call 1300 139 267**

**Private Clients**      **Your Financial Planner or call us on 1800 188 013**

**Wholesale Investors**      **AMP Capital's Client Service Team on 1800 658 404**

**Important note:** AMP Capital Investors Limited (AMP Capital), [ABN 59 001 777 591] [AFSL 232497] is the responsible entity of each of the AMP Diversified Funds listed above (Fund) and issuer of the Product Disclosure Statement (PDS) for each of the AMP Capital Conservative Fund, AMP Capital Balanced Growth Fund and AMP Capital High Growth Fund.

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