

RESPONSIBLE INVESTMENT LEADERS DIVERSIFIED FIXED INCOME FUND

23 NOVEMBER 2016

Fund changes

We are writing to advise you of a number of changes relating to the Responsible Investment Leaders Diversified Fixed Income Fund (the Fund). These changes include:

- > Introduction of securities lending
- > Enhanced fee and costs disclosure
- > Review of asset allocation

Details of these changes are provided below.

Introduction of securities lending

From the end of December 2016, the Fund will be able to engage in securities lending in order to generate additional returns for investors.

AMP Capital has recently piloted the implementation of a securities lending program across a number of AMP Capital funds. Securities lending is an investment practice whereby securities of a fund are lent to a third party (the borrower) for a period of time in return for a fee. Securities lending allows funds to use their assets held in custody to earn additional income, in the form of fees paid by the borrower. These fees increase the portfolio return and thereby, the return to investors.

Securities lending does expose the Fund to some additional risks, which could cause a loss of capital, in particular the risk that the borrower defaults by failing to return the securities. However, comprehensive processes are in place to manage and substantially mitigate these risks, including careful selection of approved borrowers, borrowing limits, collateral requirements which are monitored and managed daily and restrictions on which securities are to be loaned.

Income earned from securities lending is returned to the Fund and accrued in the unit price after the deduction of operational costs and fees payable to the securities lending agent (for operation of the program and the provision of the indemnity) and to AMP Capital (for monitoring, governance and oversight). These fees are 30% and 10% of securities lending revenue, respectively, which are in line with normal commercial rates.

Enhanced fee and costs disclosure

In accordance with amendments to the Corporations Regulations and new regulatory guidance from the Australian Securities & Investments Commission, we have implemented new enhanced fee and costs disclosure for the Fund.

Previously, the management costs of the Fund comprised the management fee, performance fee and recoverable expenses. Now, the management costs of the Fund also include indirect costs. These are not new costs being imposed on the Fund as these costs were incurred before. The indirect costs are simply now being quantified as part of the overall management costs of the Fund. Examples of indirect costs include costs associated with the use of derivatives and exchange-traded funds.

It is important to note that this change does not mean investors pay any additional management costs and does not reduce the net-of-fees return. Our management costs have not changed. The enhanced disclosure aims to provide a new level of transparency into the total costs of investing – both AMP Capital and non-AMP Capital costs. You will see the changed figures in the periodic statements.

Review of asset allocation

Following our annual strategic asset allocation review, the Fund's benchmark asset mix and strategic ranges have been updated. The changes are effective as of 1 November 2016 and include:

- > redemption of the current investment in the Future Directions Global Government Bond Fund; and
 - > expansion of the mandate of incumbent manager Alliance Bernstein ("AB") to include global government bonds and green bonds.
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Manager	Mandate	Current weight (%)	New weight (%)	Change in weight (%)	
AB	Global bonds	35%	50%	+15%	
	<i>Global credit</i>	100%	56%	-44%	
	<i>Global sovereign</i>	-	14%	+14%	
	<i>Green bonds</i>	-	30%	+30%	
Future Directions Australian Bond Fund	Australian bonds	50%	50%	-	
	<i>AMP Capital</i>	<i>Australian government bonds (nominal)</i>	85%	85%	-
	<i>Ardea Investment Management</i>	<i>Australian government bonds (inflation-linked)</i>	15%	15%	-
Future Directions Global Government Bond Fund	Global bonds	15%	-	-15%	
	<i>Colchester Global Investors</i>	<i>Global sovereign</i>	50%	-	-50%
	<i>Kapstream Capital</i>	<i>Global sovereign</i>	25%	-	-25%
	<i>AMP Capital</i>	<i>Global sovereign</i>	25%	-	-25%

Introduction of green bonds

Green bonds are debt securities issued by a diverse range of organisations globally, including development banks, supranational organisations and corporations across multiple sectors. The proceeds of green bonds are used to fund projects that have positive environmental and/or climate benefits. While the proceeds from these bonds are earmarked for green projects, they are backed by the issuer's entire balance sheet. A dedicated allocation to green bonds further enhances the environmental, social and governance (ESG) objectives of the Fund, without compromising the expected return and risk characteristics of the portfolio. The green bond allocation may opportunistically include social impact and climate change bonds.

What are the impacts on investors?

Overall, we believe the changes will enhance the ability of the Fund to meet its investment objective and that investors will benefit over the long term.

By using two main building blocks (the Future Directions Australian Bond Fund and the AB mandate) the new structure will allow managers to better navigate current market conditions and liquidity. It also utilises AB's deep expertise in global aggregate debt investing and asset allocation, alongside their thorough understanding of the risks and opportunities associated with green bond investing

In addition, by funding the green bond allocation from both global government and credit sectors, the Fund does not change its exposure to underlying risks or asset sectors. That is, the Fund will retain the characteristics of a global aggregate type strategy and existing objectives.

There will be no change to the fee schedule for the Fund.

Further information

If you have any further questions about this update, please contact your Account Manager or our Client Services Team on 1800 658 404, between 8.30am and 5.30pm (Sydney time) Monday to Friday or via email at clientservices@ampcapital.com.

Yours sincerely,



Nigel McCammon
Global Head of Client Services
 AMP Capital Investors Limited

Important note: Investors should consider the Product Disclosure Statement (PDS) available from AMP Capital Investors Limited (ABN 59 001 777 591) (AFSL 232497) (AMP Capital) for the Responsible Investment Leaders Diversified Fixed Income Fund (Fund) before making any decision regarding the Fund. AMP Capital Funds Management Limited (ABN 15 159 557 721, AFSL 426 455) is the responsible entity of the Fund and the issuer of units in the Fund. The PDS contains important information about investing in the Fund and it is important investors read the PDS before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. Neither AMP Capital, nor any other company in the AMP Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance. While every care has been taken in the preparation of this document, AMP Capital makes no representation or warranty as to the accuracy or completeness of any statement in it including without limitation, any forecasts. This letter has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. Investors should, before making any investment decisions, consider the appropriateness of the information in this fact sheet, and seek professional advice, having regard to their objectives, financial situation and needs.