

Client Communication

3 MAY 2012



Responsible Investment Leaders Balanced Fund – asset allocation update

Dear Investor,

AMP Capital has completed its 2012 strategic asset allocation (SAA) review of the Responsible Investment Leaders Balanced Fund (the Fund). This communication is to advise of the resulting changes to the Fund's asset allocation profile.

Asset allocation enhancements

AMP Capital's Portfolio Management Team reviews the SAA and investment ranges for the RIL Balanced Fund on an annual basis. This review is undertaken in conjunction with our advisory partner, Towers Watson, along with our in-house Investment Strategy & Economics Team. The aim of this process is to ensure the Fund remains well-placed to achieve its investment objectives, given our long-term risk and return expectations for the various asset classes in which it invests.

This year's review has resulted in two key enhancements to the Fund. First, some adjustments will be made to the long-term SAA of the Fund. Second, we will be incorporating a dynamic asset allocation process into the management of the Fund. These changes will be **effective from 1 August 2012**. Further details on the changes together with their rationale are provided below.

1. Strategic asset allocation changes

The revised SAA reflects AMP Capital's decision to take a more active approach to reducing the Fund's exposure to growth assets. This reflects our view that returns from investment markets are likely to remain constrained over the medium term. As a consequence, market volatility may remain elevated as the global economy recovers and financial markets respond to sovereign debt issues.

Allocations to Australian shares, international shares and listed property will be reduced. Offsetting this will be higher weightings to cash, and to a lesser extent, fixed income. We will also be reducing the level of hedging for the international shares allocation. The Fund's exposure to unlisted assets will also increase through higher allocations to direct property and alternatives, reflecting our belief that unlisted assets provide exposure to growth factors, but with greater return stability for the Fund over the long term.

These changes position the Fund to meet its performance objectives, but with a lower level of risk.

2. Adoption of dynamic asset allocation

AMP Capital will be introducing dynamic asset allocation (DAA) to the Fund's investment process. DAA provides additional scope for the Portfolio Management Team to alter the asset mix with reference to medium-term market conditions. Given the long-term SAA changes referred to above, the flexibility of DAA is a complementary addition to the investment process as it allows greater scope for active management of the Fund's asset exposures.

How DAA works

AMP Capital's DAA process is designed to complement the long-term SAA of a diversified fund by creating additional flexibility to navigate through market cycles. While the SAA is expected to remain relatively stable over time, departures from the SAA setting can be warranted to provide downside protection in the event of sustained periods of weakness or, conversely, to take advantage of favourable market conditions where certain assets are expected to deliver strong performance.

DAA is implemented through asset tilts which are informed by our Investment Strategy & Economics Team. The team has developed a strong track record in implementing asset allocation strategies for AMP Capital's suite of diversified funds. The team utilises a scoring system based on fundamental drivers (valuations, earnings, liquidity) as well as market sentiment to determine the optimal positioning with regard to the prevailing stage of the business cycle. The Portfolio Management Team adjusts the asset mix accordingly, in order to capture return opportunities or shift to a more defensive positioning if necessary.

It is not intended that the DAA process will dominate the relative performance of the Fund. Tilts will be typically restricted to +/- 5% relative to the SAA benchmark asset class weights and +/- 10% between growth and defensive assets.

New strategic asset allocations and ranges

Details of these changes are provided in the table below. **The changes are effective 1 August 2012.**

Responsible Investment Leaders Balanced Fund – strategic asset allocation targets and dynamic ranges

Sector	Current asset allocation	New asset allocation	Current asset allocation range	New asset allocation range
Australian shares	36	33	31-41	26-40
International shares*	24	22.5	19-29	15-30
Emerging market shares	2	2	0-7	0-10
Alternative assets	1	1.5	0-6	0-6
Australian REITs	3	2	0-8	0-8
Global REITs (hedged)	3	2	0-8	0-8
Direct property	5	6	0-10	0-10
Total growth assets	74	69	-	-
Australian bonds	11.5	12.5	5-18	5-18
International bonds (hedged)	11.5	12.5	5-18	5-18
Cash	3	6	0-8	0-16
Total income assets	26	31	-	-

*International Shares is benchmarked to the MSCI All Country World Index (ACWI). This benchmark has approximately 13% allocated to emerging markets. The Fund's international shares exposure has a benchmark hedging level of 25%. From 1 August 2012 the international shares exposure will move to a benchmark hedging level of 20%.

Additional communication

Investors in the Responsible Investment Leaders Balanced Fund will be able to access a Supplementary Product Disclosure Statement in relation to the introduction of DAA to the Fund, as detailed above. This document has the effect of amending our existing Product Disclosure Statement to reflect the inclusion of DAA within the investment management process.

Further information

If you have any questions about this update or have any questions about your AMP Capital investments, 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.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Brian Delaney', with a long horizontal flourish extending to the right.

Brian Delaney
Business Director – Client, Product and Marketing
AMP Capital

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