AMP CAPITAL

AMP CAPITAL MACRO STRATEGIES FUND

> The AMP Capital Macro Strategies Fund (the Fund) invests in a broad range of strategies across global rates, credit and foreign exchange and seeks to limit the probability of a negative total return.

> The Fund aims to deliver cash +2- 3% returns on a rolling three-year basis, while accepting medium levels of volatility in returns. Cash is represented by the Bloomberg AusBond Bank Bill Index.

Performance – as at 31 May 2018

	1 mth	3 mth	1 yr	3 yr	Incep
	%	%	%	%pa	%pa
Before tax after fees	0.45	0.84	2.70	3.27	4.50
Benchmark	0.17	0.48	1.78	1.95	3.61

Inception date: 2 November 2007
Performance benchmark: Bloomberg AusBond Bank Bill Index

Summary portfolio analytics

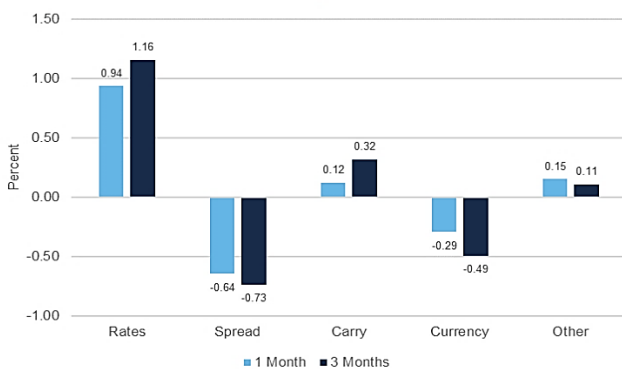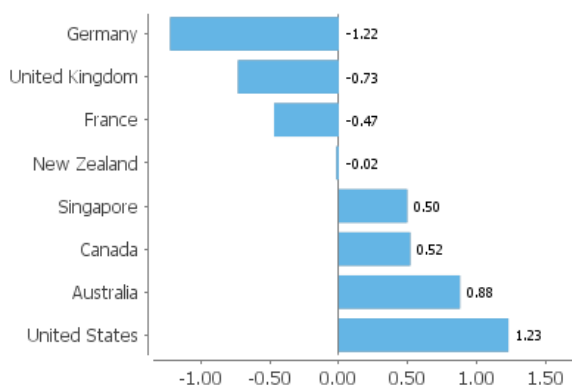|	Portfolio	Benchmark
Duration	1.12 yrs	0.13 yrs
Tracking error	1.43%	-
Yield	4.08%	1.85%

Chart 1: Active Return Attribution

Chart 2: Active Duration Contribution by Country

Performance

> The Macro Strategies Fund (the Fund) returned 0.45% in May, outperforming its benchmark by 28 basis points.

> Interest rate positioning added to performance over the month through both duration and yield curve positioning.

> Long duration positions in short-dated Australian, Korean and Canadian bonds and long-dated US bonds added to performance, as global yields moved sharply lower.

> Yield curve positioning in Europe and a short position in Italy versus France also made a positive contribution.

> Currency positioning detracted slightly from performance, as a long position in the euro was impacted by political uncertainty in Italy.

Positioning

> The Fund lengthened duration towards the end of May, amid escalating uncertainty in Italy. This was done via longer dated exposure in the US and Australia. The Fund also added short-dated duration exposure in Korea as the pricing of anticipated interest rate hikes became stretched beyond fair value.

> Within the currency markets, the Fund reduced its short position in the Australian dollar and its long positions in the Japanese Yen and the Euro. The Fund added to its long position in the US dollar versus the Asian bloc.

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Outlook and strategy

> Global data has lost momentum since the first quarter of the year, but generally remains at solid levels. European and Asian economic activity has lost momentum, whilst the US remains solid. Inflationary pressures have generally increased, although they continue to remain below what would normally be associated with gross domestic product growth.

> Risk assets have shown more resilience in the face of numerous geopolitical issues. Whilst some have faded away (such as North Korea), other issues around European politics and ongoing US-China trade tensions, continue to weigh on sentiment.

> On balance, while we see the risk of further retracements in equities as real, our base case is that, given ongoing solid underlying fundamentals, any rallies in duration are ultimately opportunities to sell. With this backdrop we would still expect central banks to be in the process of removing accommodation, and so while there are many cross currents, we expect the medium-term pattern will be for yields to rise.

> We remain of the view that the Reserve Bank of Australia is unlikely to move this year, and will probably remain sidelined through 2019 and potentially beyond.

> The business sector continues to send positive signals, particularly in regard to profitability. However, the consumer sector remains a concern and despite ongoing jobs growth consumption growth continues to be fairly subdued.

> Housing price growth has weakened after macro-prudential measures have begun to take effect and this weakness looks to be broadening out in terms of geographic distribution.

> Wage pressure remains contained, and credit growth continues to be soft although outside of housing there have been some signs of stability.

> With minimal inflation pressure, monetary policy is likely to remain on hold, and while Australian bonds have continued to outperform versus other developed markets we expect this will persist in this environment.