

AMP CAPITAL DYNAMIC MARKETS FUND (HEDGE FUND) ASX: DMKT

A COST-EFFECTIVE ACTIVE EXCHANGE TRADED MANAGED FUND THAT SEEKS TO NAVIGATE THE UPS AND DOWNS OF THE MARKET CYCLE

31 October 2016

A flexible approach to asset allocation

The Fund provides the potential for an improved risk-return outcome at a lower cost relative to a traditional diversified fund. By seeking to provide a return of 4.5% pa above inflation, rather than outperforming a market index, the Fund aims to provide an investment outcome which more closely matches the needs of the investor.

Investment approach

The Fund adopts AMP Capital's dynamic asset allocation investment approach which aims to negotiate the ups and downs of the market cycle. The dynamic asset allocation approach invests with the principal aim of achieving growth with smoother returns over the longer term.

Notes:

- > "Fund" refers to the AMP Capital Dynamic Markets Fund (Hedge Fund) ASX: DMKT.
- > "Unlisted Fund" refers to the non-exchange traded AMP Capital Dynamic Markets Fund (on Platform Class A) – inception date 28 September 2011.
- > Performance of the Unlisted Fund is shown to illustrate how a comparable AMP Capital managed fund using the same strategy has performed over longer time periods. Fund and Unlisted Fund performance may vary due to differences such as market making activities and inflows/outflows.

For more information visit ampcapital.com.au/funds

Fund performance – as at 31 October 2016

Inception Date: 15 July 2016

Benchmark: 4.5% pa above inflation

Management costs: 0.48%pa plus recoverable expenses and possible performance fee (15.375% of performance above benchmark)

%	1 mth	3 mth	6 mth	1 yr	3 yr	Incept
Total return – after fees	0.20	0.80	n/a	n/a	n/a	0.54
Distribution	0.00	n/a	n/a	n/a	n/a	n/a
Growth	0.00	n/a	n/a	n/a	n/a	0.54
Benchmark	0.54	1.66	n/a	n/a	n/a	1.83

Past performance is not a reliable indicator of future performance.

Please note that performance for the Fund is less than 1 year and should not be relied on as indicative of future performance. This performance report is prepared for information purposes and not promotional purposes.

Historical performance of the Unlisted Fund – as at 31 Oct 2016

%	6 mth	1 yr	3 yr	Incept
Total return – after fees	2.09	-3.50	4.74	7.72
Benchmark	2.33	-3.04	5.45	8.36

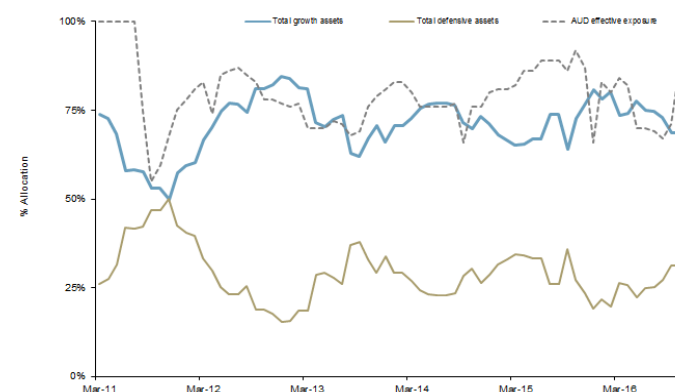
Past performance is not a reliable indicator of future performance.

Performance is annualised for periods greater than one year. All total returns are calculated using the net asset value per unit for the relevant month end. This price may differ from the actual unit price for an investor buying or selling an investment. All returns quoted are before tax, after fees and costs and assume all distributions are reinvested. Historic performance of the Unlisted Fund is not a reliable indicator of the performance of the Fund.

How the Fund has performed

- The Fund delivered a positive return but underperformed the CPI + 4.5% objective in October.
- Since inception of the strategy, the Fund has exceeded the CPI + 4.5% objective.
- The main asset changes in October were to close the allocation to Emerging Market bonds and increase allocation to Japanese shares.
- We continue to expect there will be market volatility and a period of consolidation after the strong rally. The end of the year tends to be a seasonally strong period for shares.

Historical asset allocation movements (Unlisted Fund)



Fund asset allocation – Growth

	Current %	Range %
Australian shares	14.77	0-50
International shares - developed and emerging*	41.05	0-50
Global REITs*	0.00	0-25
Global credit (high yield)*	2.95	0-25
Commodities*	10.43	0-25
Total - Growth Assets	69.20	0-90

*A\$ hedged

Fund asset allocation – Defensive

	Current %	Range %
Australian sovereign bonds	3.11	0-25
Global sovereign bonds*	0.00	0-25
Global credit (investment grade)*	0.00	0-25
Global inflation linked bonds*	5.00	0-25
Cash	22.69	0-50
Total - Defensive Assets	30.80	10-100

*A\$ hedged

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What we believe the signals are saying, and what this means for the Fund's asset allocation

The Fund aims to capitalise on opportunities in the market by adopting a 'dynamic' approach to asset allocation. We do this by analysing a broad range of signals for each asset class, then allocating to asset classes according to where we are in the market and economic cycles, and according to the expected risk and reward over the medium term.

■ In favour ■ On watch ■ Negative

	Equities	Listed property	Fixed income	Commodities
Valuation signals Determine whether an asset class is overvalued, undervalued or fairly priced.	■	■	■	■
Despite some worries around absolute valuations, relative valuations remain attractive for equities compared to bonds as the gap between earnings yields and bond yields remains wide (though beginning to narrow on the back of rising bond yields.)				
Cycle signals Determine which stage we are at in the business cycle.	■	■	■	■
Despite recession fears, economic indicators continue to point to moderate global growth.				
Liquidity signals Assess monetary conditions in different countries.	■	■		■
Liquidity conditions remain favourable for equities, with global interest rates low and quantitative easing programs in place in Japan and Europe, as well as dovish behaviour from central banks around the world. The prospect of more rate hikes by the Fed than the markets expects is a risk.				
Sentiment signals Identify 'herd' behaviour among investors.	■	■	■	■
Investor sentiment has retreated towards neutral levels given the uncertainty and risk around certain events such as the US Presidential election.				
Technical signals Identify if markets are overbought or oversold.	■	■	■	■
Technical signals have seen improvements in trend across different markets, as well being supported by positive market breadth.				
Result	Favourable	Neutral	Negative	Favourable

Commentary

Amid uncertainty leading up to the US Presidential election, the Fund retained option protection to provide a significant cushion against any material market declines. The Fund also retains a relatively high cash allocation (of over 20%) as a defensive asset class. Cash also enables the Fund to take advantage of opportunities that may arise out of any market weakness. The team will look closely for signs of markets becoming more attractive from a valuation perspective, sentiment reaching bearish extremes and markets becoming oversold through the DAA process. Event-risks other than the US election remain that must be closely monitored including the Italian referendum and the prospect of Fed rate hikes.

Investment objective

The Fund aims to provide a total return (income and capital growth) before costs and before tax, of 4.5% pa above inflation - the Reserve Bank of Australia inflation rate (Consumer Price Index) – trimmed mean (published on www.rba.gov.au) - on a rolling 5 year basis.

FACTS

Fund size	\$11.86 million	Exchange	ASX
Minimum suggested time frame	5 years	ASX Code	DMKT
Distribution frequency	Half yearly	Currency	AUD
Date of last distribution	N/A	Trading	10:00 - 16:00 (AEST)
Distribution cents per unit	N/A	Bloomberg Code	DMKT AU
Issuer & Responsible Entity	BetaShares Capital Ltd	IRESS Code	DMKT.AXW
Investment Manager	AMP Capital Investors Limited	iNAV IRESS Code	DMKTINAV.ETF

FOR MORE INFORMATION

If you would like to know more about how AMP Capital can help you, please visit ampcapital.com.au

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