



# Fund Review

## AMP Capital Dynamic Markets Fund (Hedge Fund)

ISSUE DATE 31-01-2017

### About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	VARIABLE GROWTH ASSETS
SUB SECTOR REVIEWED	REAL RETURN
TOTAL FUNDS RATED	21

### About this Fund

ASIC RG240 CLASSIFIED	YES
FUND REVIEWED	AMP CAPITAL DYNAMIC MARKETS FUND (HEDGE FUND)
ASX CODE	DMKT
POS OBJECTIVE	TO PROVIDE A TOTAL RETURN (INCOME AND CAPITAL GROWTH) BEFORE COSTS AND BEFORE TAX, OF 4.5% P.A. ABOVE THE RESERVE BANK OF AUSTRALIA INFLATION RATE (CONSUMER PRICE INDEX) - TRIMMED MEAN, ON A ROLLING FIVE-YEAR BASIS
DISTRIBUTION FREQUENCY	BI-ANNUAL
FUND SIZE	\$13.8M AS AT 27 JAN 2017
FUND INCEPTION	03-08-2016
MANAGEMENT FEE	0.50% P.A
PERFORMANCE FEE	15% OF THE FUNDS NET OUTPERFORMANCE OVER THE BENCHMARK SUBJECT TO A HIGH WATERMARK
RESPONSIBLE ENTITY	BETASHARES CAPITAL LTD

### About the Fund Manager

FUND MANAGER	AMP CAPITAL INVESTORS LTD
OWNERSHIP	AMP 85% AND MITSUBISHI UFJ TRUST AND BANKING CORPORATION 15%
ASSETS MANAGED IN THIS SECTOR	\$9BN
YEARS MANAGING THIS ASSET CLASS	44

### Investment Team

PORTFOLIO MANAGER	NADER NAEIMI, SHANE OLIVER
INVESTMENT TEAM SIZE	7
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	CENTRALISED / SYDNEY

### Investment process

ASSET ALLOCATION	DYNAMIC ASSET ALLOCATION (DAA)
GROWTH / DEFENSIVE SPLIT	VARIABLE
INVESTMENT VEHICLES	MANAGED FUNDS, ETFS, DERIVATIVES
SECTOR EXPOSURES	PASSIVE

### Fund rating history

JANUARY 2017	RECOMMENDED
AUGUST 2016	RECOMMENDED

### What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Strengths

- Highly experienced investment team.
- The DAA process is well tested and has proven to add value over time.

### Weaknesses

- Presence of performance fee in light of the Fund's real return objective.
- Higher risk (as measured by volatility) and downside capture compared to peers.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
CURRENCY RISK		●	
LEVERAGE RISK	●		
SECURITY CONCENTRATION RISK	●		
REDEMPTION RISK	●		
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIOMetrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE					●		

A Standard Risk Measure score of 5 equates to a Risk Label of 'Medium to High' and an estimated number of negative annual returns over any 20 year period of 3 to less than 4. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with AFSA/FSC guidelines.

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY			●

### Fee profile

	LOW	MODERATE	HIGH
FEES - VS UNIVERSE		●	
FEES - VS ASSET CLASS		●	
FEES - VS SUB SECTOR	●		

Fee BIOMetrics are a function of expected total fee as a percentage of expected total return.

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## What is this Fund?

- The AMP Capital Dynamic Markets Fund (Hedge Fund) (the 'Fund') has been admitted to trading status on the ASX AQUA market under the ASX AQUA Rules framework (ASX code: DMKT).
- The Fund has the same features and investment process as the unlisted AMP Capital Dynamic Markets Fund, which has been operating since 28 September 2011.
- The Fund shares many characteristics with exchange traded funds (or ETFs), which are also listed on the ASX, though differs in two important aspects. Firstly, the Fund discloses holdings on a quarterly basis (with a two month lag), whereas ETFs disclose on a daily basis. Secondly, the Responsible Entity acts as a market maker for the buying and selling of units, whereas ETFs usually appoint third party market makers. **This means any profit and loss generated from the market making activities is for the account of unitholders in the Fund.**
- The Fund is a Multi-Asset Real Return strategy, which specifically targets a return of 4.5% p.a. before fees and expenses above Australian inflation (CPI trimmed mean) over rolling 5 year periods.
- The Fund adopts a Dynamic Asset Allocation (DAA) approach to actively manage asset allocation and currency hedging based on market conditions and AMP Capital's ongoing assessment of downside risk versus upside opportunities.
- The Fund can and will invest across a broad spectrum of traditional asset classes (domestic and global equities, fixed income, REITs, commodities, inflation linked bonds). Investment ranges are deliberately wide to allow the Manager to fully reflect its DAA views. Implementation is via liquid and cost effective instruments such as Exchange Traded Funds (ETFs) and derivatives.

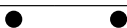
## Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- The Fund is peer unaware and does not follow industry convention for traditional Multi-Asset funds. The Fund performance can differ markedly from the returns of traditional balanced funds in the short term. The Fund is designed to outperform traditional balanced funds in bear markets, but may lag returns in strong bull markets.

### Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

## Changes Since Previous Lonsec Review

- Callum Thomas (Investment Strategist) has departed the Manager. Thomas has been replaced by Angus Nicholson who joined the team in November 2016.
- There have been no material changes to the investment process.

## Lonsec Opinion of this Fund

### People and resources

- Lonsec considers BetaShares to be an experienced provider and Responsible Entity of ETFs in the Australian market with a broad range of offerings. BetaShares also acts as market maker on behalf of the Fund. Detailed agreements between AMP Capital and BetaShares provides the governance framework for the alliance. This includes a service level agreement for the market making, though investors should note any profit and loss from these activities is borne by the Fund and allocated pro rata to unitholders. Any material deviation between the performance of the Fund and performance of the unlisted AMP Capital Dynamic Markets Fund managed fund would likely result in a change of rating for the Fund.
- The AMP Capital Investment Strategy and Dynamic Markets Team ('the investment team' or 'IS&DM team') is responsible for the management of the Fund and led by two very experienced investors in Shane Oliver and Nader Naeimi. They are primarily supported by two mid level analysts, with the team of seven having an average of 14 years investment experience. The IS&DM team experienced a senior departure in 2015 with the departure of Economist Bob Cunneen. However, Lonsec is pleased to observe the nucleus of the team (namely Naeimi and Oliver), who Lonsec considers to be ultimately responsible for the investment process and track record, have remained stable for over 16 years.
- AMP Capital has added two recent appointments to the team, a quantitative analyst and economist which has strengthened the resources available to conduct capital market research and improve the teams quantitative rigor. Furthermore, Bevan Graham (Chief Economist - NZ) also reports through to Naeimi and Oliver respectively, following a change in reporting lines in 2015.
- Lonsec considers Naeimi as Lead Portfolio Manager for the Fund and ultimately accountable for its performance, to be an experienced investor with extensive experience in running the DAA process. Naemi works alongside Oliver who is Head of Investment Strategy. Oliver, with over 30 years experience, provides strong backup support having worked closely with Naeimi for 17 years in developing and implementing the DAA process across a range of AMP Capital portfolios.
- Given his heavy involvement in the development of the DAA process and extensive market experience, Lonsec considers a moderate level of key person risk to reside with Portfolio Manager, Naeimi. However the support from Oliver somewhat mitigates this.
- The IS&DM Team sits within the Multi-Asset Group (MAG) of AMP Capital of more than 37 investment professionals. Across the broader AMP Capital business, and in particular within MAG, Lonsec notes there has been a continued program of adding senior resources where required.
- The relevant MAG Investment Committees are ultimately responsible for the governance and ensuring the relevant investment processes are implemented for the Multi-Manager and Multi-Asset class products they reside over. The Investment

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Committee responsible for this Fund (Diversified Investment Committee) meets on a quarterly basis. All AMP Capital investment committees have a formal agenda to review performance, compliance, manager updates and research.

- Lonsec considers the alignment of interest between the investment team and investors to be high, supported by variable remuneration which is tied to achieving relevant fund objectives (for portfolio managers), investment staff share in revenue earned from performance fees, the ability for investment team members to participate in AMP Capital's net profits, and team members investing in AMP Capital funds via AMP's superannuation plan.
- The Fund also benefits from the wealth of resources available across the broader AMP Capital business, including independent Investment Risk and Exposure Management Teams, freeing up the investment team to focus purely on investment issues.

### Asset Allocation

- The Fund employs a DAA process, whereby medium term views drive a relatively unconstrained portfolio structure. The Fund can invest across a wide range of traditional assets and has wide and relatively unrestricted investment ranges. Pleasingly, AMP Capital is joined by a small number of contemporaries and with this Fund, opted to focus on the needs of the investor (producing real returns whilst limiting downside losses) as opposed to what has become somewhat of an industry norm in aiming for 'peer relative' returns.
- A scorecard approach is adopted across a range of fundamental drivers (valuations, earnings cycle, liquidity / monetary policy) and sentiment drivers (sentiment, technical) for each asset class. Underlying each driver is a set of proprietary quantitative models. Lonsec considers the asset allocation process to be logical, robust and consistently applied. The models that drive the DAA process have evolved over time and thorough qualitative and quantitative analysis is conducted on each model and its suitability in the total Fund context considered prior to inclusion. Pleasingly the Manger has been very transparent in disclosing the underlying composition of the quantitative models to Lonsec.
- The Team's asset allocation skills date back to the early 1990's and in the last few years have evolved into the DAA process that is currently employed across AMP Capital portfolios including AMP Capital Multi-Asset Fund, AMP Diversified Options and the Future Directions Funds. The process is well tested and has proven to add value over time.

### Research and portfolio construction

- The Team's research is focused on looking to improve and refine the effectiveness of the inputs to the DAA model to ensure its robustness.
- The Fund is constructed using passive and liquid vehicles such as ETFs and derivatives at the asset class level. The benefit of this approach being a transparent, low-cost and liquid Fund. However this approach does limit the number of alpha levers available when compared to the other Real Return strategies assessed by Lonsec which

typically incorporate active management and the use of alternatives. Pleasingly, the Fund charges a considerably lower management fee (50 basis points versus the Real Return peer average of 90 basis points) compensating for the passive approach.

- The Fund also charges a performance fee of 15% of outperformance above CPI plus 4.5%p.a. (net of management fee, exclusive of GST), subject to a high watermark and paid quarterly. While Lonsec considers this be an appropriately structured performance fee, it could be argued the validity of applying a performance fee is questionable in light of the Fund's real return objective. Lonsec will monitor the performance objective to ensure it maintains a realistic hurdle and doesn't encourage unnecessary risk taking.

### Risk management

- Lonsec notes that AMP Capital has a strong risk management culture. Risk is focused on numerous factors centred on meeting objectives, shortfall probability and portfolio construction. This is demonstrated through a range of proprietary and commercial systems, independent Investment Risk & Performance, Exposure Management and Compliance teams engaged for all AMP Capital products.
- Lonsec believes the separation of administrative and compliance functions from portfolio management enhances the integrity of the overall investment process.

### Performance

- The Fund aims to deliver deliver CPI +4.5% p.a. ('the Benchmark') over rolling five year periods. That said, no performance data for the Fund is available as it only recently launched on 3 August 2016. However, the Fund is designed to mirror the performance of the unlisted AMP Capital Dynamic Markets Fund (DMF), although Lonsec notes that performance differentials may arise due to timing differences associated with performance fees.
- Pleasingly, the DMF has achieved this objective in the five years to 30 November 2016. That said, compared to peers, the Fund has demonstrated significantly higher volatility as measured by standard deviation plus a significantly higher draw-down than the peer group average.
- Recent performance has been disappointing with the Fund returning 4.85% (after fees) in the year to 30 November 2016, to underperform the Benchmark and Lonsec Multi-Asset Real Return peers by 0.89% and 0.08% respectively. The main contributors to performance were Global Equities, Australian Equities, Emerging Market Equities and Australian Sovereign Bonds; while the main detractors were Commodities and FX. Lonsec notes that although FX has been the largest detractor over one year, in particular the underweight position in AUD, FX since inception has been a strong contributor to performance and the current positioning and underperformance is relative to a longer dated trade that the team continues to have a strong conviction in.

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### Overall

- Lonsec has maintained the Fund's 'Recommended' rating at its first review. Lonsec considers this Fund to be an attractively priced, transparent and liquid entry point to Multi-Asset Real Return investing. The Fund employs a proven DAA process that is managed by a highly experienced investment team. The Fund also benefits from the wealth of resources available across the broader AMP Capital business. The use of passive and liquid vehicles for implementing asset class exposures differentiates this Fund from the broader Real Return peer group.
- In Lonsec's view, the application of a performance fee, in excess of the Fund's objectives, could be interpreted as an incentive to take additional risk to achieve such returns. This will be an aspect Lonsec will continue to monitor at future reviews.

### People and Resources

#### Corporate overview

BetaShares Capital Ltd (BetaShares) is the Fund's Responsible Entity and is accountable for the ongoing management of the Fund's underlying assets. It is a wholly-owned subsidiary of BetaShares Holdings Pty Ltd (BetaShares Holdings). BetaShares Holdings was established in 2009 as a specialist provider of exchange traded products. It is 55% owned by Horizons, 42% owned by BetaShares's management team and the remainder owned by private investors. Horizons is a fully controlled subsidiary of the Mirae Asset Global Investments Group. Mirae is a Korean based asset management entity with over \$100bn of FUM. Mirae is particularly active in emerging market equities and is currently expanding its ETF platform globally. The Horizons family of ETFs has over \$11 billion in assets in ETFs listed across 6 countries. BetaShares has over \$3.3bn of FUM across 35 ETF products as at December 2016.

BetaShares also acts a market maker in the Units on behalf of the Fund. The Fund will bear the cost and risk of these market making activities.

AMP Capital Investors Limited (AMP Capital) is a specialist investment manager majority owned by AMP Limited, an ASX listed company. AMP Capital employs over 250 in-house investment professionals and manages over \$160.4 billion in managed funds (as at 30 June 2016) across a range of assets, including real estate, infrastructure, fixed income, active equities, Multi-Manager and Multi-Asset funds.

AMP Capital Investors Limited (AMPCI) is 85% owned by AMP Limited (ASX: AMP).

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
NADER NAEIMI	HEAD OF DYNAMIC MARKETS	21 / 17
SHANE OLIVER	HEAD OF INVESTMENT STRATEGY & CHIEF ECONOMIST	33 / 33
SAM AMORA	INVESTMENT STRATEGIST / ASSISTANT PORTFOLIO MANAGER	8 / 8
BEVAN GRAHAM	AMP NEW ZEALAND CHIEF ECONOMIST	28 / 9
ANGUS NICHOLSON	INVESTMENT STRATEGIST	4 / <1
DIANA MOUSINA	ECONOMIST	8 / 1
PIERRE-HEDZER MARCHI	QUANTITATIVE ANALYST	6 / 1

The Fund is managed by the IS&DM which sits within the MAG of AMP Capital.

Naeimi has 21 years investment experience, 17 of which have been in the IS&DM Team. Naeimi is Head of Dynamic Asset Allocation and lead Portfolio Manager for the Fund.

Oliver who co-leads the IS&DM team has 33 years investment experience, most of which have been at AMP Capital. Oliver is also responsible for managing AMP Capital's Diversified Options, as well as providing economic forecasts and investment market analysis to the broader business.

The MAG also has capacity to draw on other areas within AMP Capital, Platform Administration Team, Performance Analytics Team and the Legal and Risk & Compliance Team, as well as AMP Capital's specialist investment teams.

#### Alignment of Interests

On 1 January 2016, AMP Capital implemented a new remuneration policy for investment staff designed to reward high performance and maximise staff retention. As part of this new framework, AMP Capital profits are now separate and independent of AMP. The remuneration structure for the Portfolio Manager is clearly aligned to Fund performance, with variable remuneration being based on delivering on fund objectives.

Investment staff will also share in revenue earned from performance fees. In addition, investment staff will now participate in a share of AMP Capital's net profit before tax after cost of capital. The size of the investment team profit share is relative to the team's contribution to AMP Capital.

Deferral arrangements to retain high performing team members are in place for bonuses above a certain threshold. Deferrals will be invested into the team's Fund for three years and vested during year two and three. The team members also invest in AMP Capital funds via AMP's superannuation plan.

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# AMP Capital Dynamic Markets Fund (Hedge Fund)

## Research Approach

### Overview

ASSET CLASS	CURRENT ALLOCATION (MIN - MAX) %
AUSTRALIAN EQUITIES	14.8 (0-50)
GLOBAL EQUITIES	41.1 (0-50)
GLOBAL PROPERTY	0.0 (0-25)
AUSTRALIAN FIXED INTEREST	3.1 (0-25)
GLOBAL FIXED INTEREST	5.0 (0-100)
GLOBAL HIGH YIELD CREDIT	3.0 (0-25)
COMMODITIES	10.4 (0-25)
CASH & HEDGES	22.7 (0-50)
TOTAL	100

Research is focused on looking to improve and refine the effectiveness of the inputs to the DAA model to ensure its robustness.

### Tactical / Dynamic Asset Allocation

The Asset Allocation process has five stages. The first stage of the process is to arrive at a medium-term return expectation for each of the asset classes under consideration. Asset classes considered are those that are liquid and can be accessed relatively cheaply. Return expectations are typically based on dividend yield plus earnings growth for each asset class.

Secondly, AMP Capital's proprietary Dynamic Asset Allocation (DAA) process is used to come up with return expectations for each asset class given where we are in the prevailing business cycle. A scorecard approach is adopted across a range of fundamental drivers (valuations, earnings cycle, liquidity / monetary policy) and market drivers (sentiment, technical) for each asset class. Underlying each driver is a set of proprietary quantitative models. Drivers are dynamically weighted depending on the prevailing market and economic cycles. For example, at certain points of time, valuation and sentiment indicators will have more weight than cyclical indicators.

The medium term expectations from Step 1 are then combined with the DAA scores from Step 2 using a Black-Litterman approach to arrive at the merged return expectation for each asset class.

The fourth step is a mean-variance optimisation of those return expectations to arrive at the proposed allocations. The aim is to find a portfolio that leads to the highest Sharpe Ratio for the lowest shortfall probability against CPI +4.5%p.a. over a five-year time horizon.

The final step is to review the output in the weekly asset allocation meeting. Portfolio Managers, investment analysts and asset class specialists meet to discuss the outputs from the models, debate significant market events and propose any changes.

The process is run weekly or more often if required.

## Portfolio Construction

### Overview

The Fund is designed to be simple and cost effective and as such will gain exposure to asset classes via futures, index funds and ETFs. The Manager will weigh up liquidity, cost and efficiency when determining the best way to access the desired exposures.

### Derivatives

The Fund is permitted to invest in derivatives such as futures, forwards, swaps and options in order to hedge existing positions, improve implementation efficiency, or to manage asset allocations. Derivatives cannot be used to gear the Fund or create net short positions.

## Risk Management

### Risk limits

With respect to the Fund, AMP Capital aims to diversify risk across asset classes, primarily by blending a number of different but complementary asset classes to avoid dominance, in either return or risk, of any single asset class.

### Risk monitoring

The AMP Capital Investment Risk team is responsible for the daily monitoring of the asset allocations and risk attributors within the Fund. This team resides within the Investment Services division of AMP Capital, which is a separate business section to the MAG.

The Investment Risk team will independently conduct their own stress testing and scenario analysis on the Fund.

### Implementation

The Exposure Management Team is responsible for rebalancing, with deviations in asset allocation targets of more than 1% typically rebalanced.

Gearing is not permitted, although the Fund may have an overdraft limit up to 10% of NAV in order to meet short term liquidity needs.

### Currency management

Under the DAA framework, changes to hedging levels are applied dynamically at the total portfolio level. The changes are not based on forecasting currency moves, rather based on several drivers of currency markets highlighted in a reward / risk framework.

## Risks

**An investment in the Fund carries a number of standard investment risks associated with investment markets. These include economic, market, political, legal, tax and regulatory risks. Investors should read the PDS before making a decision to invest or not invest. Lonsec considers the major risks to be:**

### Market risk

Investment returns are influenced by the performance of the market as a whole. This means that your investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes you invest in and the timeframe you are considering.

### Derivatives risk

The Fund may invest in exchange-traded (e.g. index futures) and over-the-counter (e.g. currency forwards) derivatives. Derivatives may be applied across individual stocks, market sectors or countries / regions. The Manager advises that derivatives are intended to be used both for return generation and risk management purposes.

### Currency risk

Investments in global markets or securities which are

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denominated in foreign currencies give rise to foreign currency exposure. This means that the value of these investments will vary depending on changes in the exchange rate.

### **Other risks**

Please refer to the Fund's PDS for more details on items identified by the Responsible Entity and Manager including Liquidity Risk, Counterparty Risk, Legal and Regulatory Risk.

### **Market making risk**

The Responsible Entity acts as market maker in the units on behalf of the Fund and the Fund bears the risk of these market making activities. As many overseas stock markets in which the Fund invests are closed during the ASX trading day, it is not possible for the Responsible Entity to fully hedge the Fund's market making activities. As such, the Fund bears the next day pricing risk for any net units it has traded on the ASX AQUA market. In order to mitigate this risk, the Responsible Entity has the discretion to widen the spread at which it makes a market or cease making a market subject to the AQUA Rules and ASX Operating Rules.

### **Quantitative Performance Analysis**

The Fund commenced in August 2016. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Fund as a more significant track record develops.

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## AMP Capital Dynamic Markets Fund (Hedge Fund)

### Glossary

**Total return** ‘Top line’ actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss (‘peak to trough’) experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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