ANZ Dynamic 100 Diversified Portfolio

Investment strategy and approach

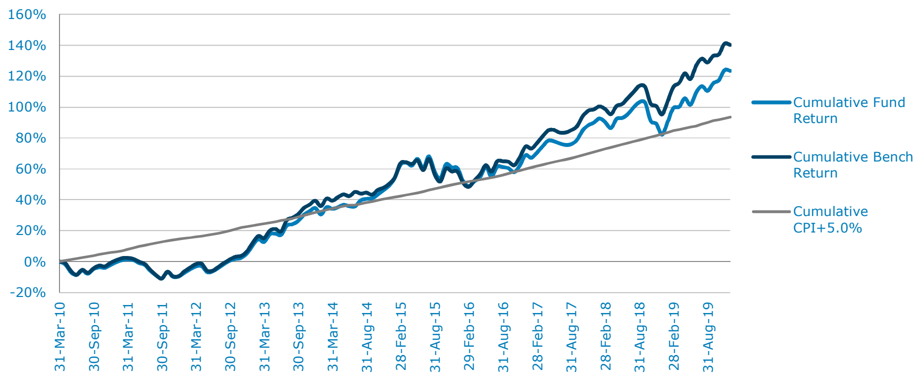
The ANZ Dynamic 100 Equity Portfolio ('the Portfolio') is a diversified Portfolio consisting of a combination of Australian and International equities, Alternatives and Real Assets. The Portfolio dynamically tilts between the asset classes to grow and preserve capital. The Australian shares exposure is gained through a passive exposure to the 20 companies that comprise the S&P/ASX 20 Index with two actively managed portfolios of 10-20 stocks each. The international share portion of the Portfolio reflects ANZ's Chief Investment Office and the Regional Investment Council's long-term view of international markets and the most appropriate exposures supporting this belief. The Alternative Assets exposure is gained through a Multi-Asset strategyand Real Assets exposure is gained through passive Global Listed Infrastructure and Global Listed Property Funds. The Portfolio will hold cash and cash equivalents for liquidity purposes.
Over the long term, the investment objective of the Portfolio is to outperform Australian domestic inflation, as measured by the CPI, by 5% p.a. (before taxes and fees) over rolling 10 year periods.

Portfolio performance

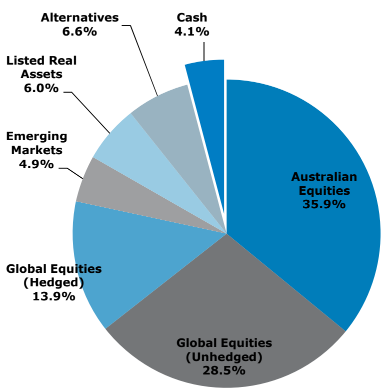
	1mth	3mths	1 yr	3yrs (p.a.)	5yrs (p.a.)	Since inception[4] (p.a.)
Total return[1]	-0.2%	3.7%	22.7%	9.8%	8.4%	8.6%
CPI+5% benchmark[2]			6.0%	6.6%	6.5%	7.0%
Benchmark return[3]	-0.3%	3.0%	23.0%	11.2%	9.8%	9.6%
Value added vs benchmark[3]	0.1%	0.7%	-0.3%	-1.5%	-1.4%	-1.0%

1. All returns are in Australian Dollars (AUD)
2. CPI data is as at June 2019. Source: Reserve Bank of Australia
3. Before 14 July 2017, the relative benchmark is a weighted average return of 45% - S&P/ASX 100 Accumulation Index, 38.5% MSCI, 16.5% MSCI Hedged. After 14 July 2017, the relative benchmark is a weighted average return of 37.5% S&P/ASX 300 Total Return Index, 26% MSCI World Index (Ex Australia) Net Return, 13.5% MSCI World Index (Ex Australia) Net Return Hedged, 6% MSCI Emerging Markets Net Total Return Index , 7% Bloomberg Aus Bond Bank Bill Index ,3.5% FTSE EPRA/NAREIT Developed Rental ex Australia Net Return Hedged, 3.5% FTSE Developed Core Infrastructure Index Hedged and 3% Aus Bond Bank Bill Index.
4. Inception date is 1 April 2010
5. Figures may not add up due to rounding.

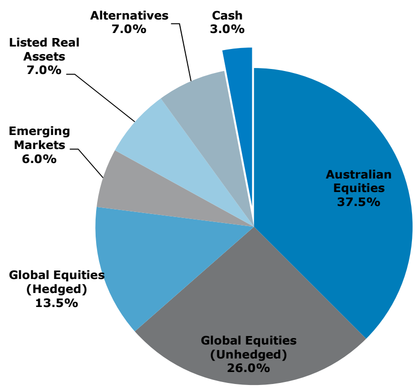
Portfolio performance since inception



Asset allocation



Strategic asset allocation benchmark



Asset class performance

	Portfolio return (1 mth)	Benchmark return (1 mth)	Portfolio return (1 year)	Benchmark return (1 year)	Benchmarks
Australian Equities	-1.7%	-2.0%	23.4%	23.8%	S&P/ASX 100 before 14 July 2017. S&P/ASX 300 after 14 July 2017.
Global Equities	0.2%	0.1%	27.4%	27.7%	MSCI World ex-Aus Accum Index Net Div AUD (30% hedged)
Cash	0.1%	0.1%	1.7%	1.5%	Bloomberg AusBond Bank Bill Index
Emerging Markets (Unhedged)	3.8%	3.4%	17.1%	18.6%	MSCI Emerging Markets Net Total Return Index AUD
Listed Real Assets	1.1%	1.3%	22.8%	23.3%	50% FTSE Developed Core Infrastructure (AUD Hedged), 50% FTSE EPRA/NAREIT Developed Rental ex AU (AUD Hedged)
Alternatives	1.0%	0.4%	11.0%	5.5%	Bloomberg AusBond Bank Bill Index plus 4%

The above performance is based upon the Model Portfolio. Individual Portfolios may differ from this due to factors that include timing of implementation, cash flows and corporate actions.

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Market commentary

International equities climbed higher in December, capping off a strong year, as anticipation of an interim trade deal between the U.S. and China — alongside ongoing global central bank support — lifted investor sentiment.

The MSCI World ex Australia (Net) Index returned 2.3% and -0.9% when hedged to the Australian dollar (AUD). Australian equities underperformed their global counterpart returning -2.0% for the month. Fixed income markets followed suit, with Australian fixed income, -1.6%, trailing its international equivalent which finished down only -0.3% in AUD terms.

In the US the S&P 500 finished the month up 3.0%. A few days ahead of the scheduled December 15th increase in retaliatory tariffs, the U.S. and China announced that they had agreed to terms of a 'phase one' trade deal. The deal was broadly praised by both U.S. and Chinese leaders. If nothing else, it was a welcomed sigh of relief for investors following 18+ months of failed negotiations and a tit-for-tat trade war. Investor sentiment was further buoyed by stronger-than-expected jobs, wage, retail sales and consumer sentiment data — giving investors additional hope that the economy is on solid ground. In monetary policy news, the Federal Open Market Committee met in December and kept interest rates unchanged while also indicating they plan to hold rates steady throughout 2020.

European equities rallied, finishing the month in positive territory, as optimism regarding global trade and renewed Brexit clarity provided a boost. Similar to US markets, the announcement of a 'phase one' trade deal led to a rotation into risk-on assets across Europe and cyclical pockets of the market broadly rallied, while safe haven assets fell. Economic data across the euro-area broadly surprised to the upside as Composite PMI data posted a positive monthly increase while business and consumer sentiment indicators also rebounded. In the U.K., the Conservative party won a large majority following a mid-December general election, eliminating political hurdles and paving the path for Boris Johnson to put Brexit on track for 2020. In central banking news, ECB president Christine Lagarde left policy unchanged at her first formal meeting.

Weakness across most sectors dragged Australian equities lower in December, tempering a strong return for the asset class in 2019. Materials and Utilities were the only sectors to generate positive returns during the month.

The Australian dollar gained ground against the Euro, US dollar and the Japanese yen.

Portfolio commentary

The portfolio returned -0.2% in December, outperforming its benchmark by 0.1%.

All actively managed asset classes' added alpha to the portfolio in December despite the Australian allocation producing negative absolute returns.

The Australian equities component of the portfolio fell -1.7% during the month, outperforming its benchmark by 0.3%. From a sector perspective, underweight positions in Real Estate and Consumer Staples, two of the three worst performing sectors in the index during December, aided relative returns. An overweight position in the worst performing sector, Communication Services, pared back some of these gains. At a stock level, the portfolio's overweight holdings in Ardent Leisure (ALG), Bluescope Steel (BSL) and Atlas Arteria (ALX) — along with the avoidance of Treasury Wines Estates (TWE) — aided relative returns most.

Global equities outperformed its benchmark by 0.1%. The allocation's active performance was aided by an underweight exposure to the Communication Services sector which lagged the broader index in December. This was offset however by a significant overweight to Industrials — the worst performing sector in the index during December.

At the stock level, not owning Boeing contributed positively to relative performance as shares in the US aerospace company fell more than 14% during the month. Other positions to aid returns included off-benchmark positions in Hong Kong based electronic fittings producer Tongda Group Holdings (+61.7%) and South Korean global technology manufacturer, Samsung Electronics. Overweight holdings in Bayer (Germany), Schneider Electric (France), and advertising and marketing firm WPP Group (United Kingdom) also benefited positively. Countering these gains were overweight holdings in Walt Disney (United States), Check Point Software Technologies (Israel), Oracle (United States) and Pernod Ricard (France) as each stock fell more than 6% in December.

In a month where most asset classes absolute returns' finished flat or negative, listed real assets and alternatives provided a good source of diversification returning 1.1% and 1.0% respectively. Listed real assets were driven by the infrastructure exposure, which returned 3.0% for the month.

Portfolio positioning and currency management

While an economic recovery looks likely to play out, equity and bond markets have moved ahead of a turn in the economic cycle. Risks still remain around trade tensions and the pace and duration of a re-acceleration in global growth. Within growth assets we have a preference for developed market shares due to better valuations and expected earnings relative to Australia. Valuations for listed real assets are now expensive in absolute terms and relative to core equities and as a result are held modestly underweight.

We have moved to a modest underweight in the Australian dollar following recent strength. While bulk commodity prices remain relatively robust, weakness in the domestic economy is the main downside risk to the currency from its current levels.

Hedging strategy

	Current portfolio target	Benchmark
Hedging level	29%	30%

Launch date

1 April 2010

Fund currency

Australian dollar

Underlying managers:

ANZ Chief Investment Office

Fees

Please refer to the relevant PDS and the Investment Menu/Managed Account Profile for more information.