CLIENT COMMUNICATION

GLOBAL BONDS STRATEGY CHANGE
AMP CAPITAL HEDGED GLOBAL FIXED INTEREST FUND

17 NOVEMBER 2017

I am writing to advise you of some changes to the investment strategy for the AMP Capital Hedged Global Fixed Interest Fund (AIF Q). AMP Capital has recently completed a review of its multi-manager global fixed interest strategy and as a result is implementing changes to AIF Q. These changes involve the inclusion of AMP Capital Australia's global sovereign bond capability, changing the benchmark to a weighted average composite benchmark, and a change to the investment guidelines to increase environmental, social and governance (ESG) considerations in the Fund.

The following provides further information on the changes to the Fund's investment approach.

Current portfolio

The following is the current mandate and fund manager breakdown for AIF Q:

Mandate	Fund manager	Target weight %	Range %
Global sovereign bonds	Colchester	63.0	58-68
Global credit	Morgan Stanley	22.0	17-27
Global securitised	Wellington	15.0	10-20
Total		**100.0**	

This current portfolio comprises three active international fixed interest managers, with the highest weighting held by Colchester in the global sovereign bonds sector.

New portfolio

The new strategy will see the inclusion of an AMP Capital Australia global sovereign bond mandate alongside the existing manager Colchester. This will result in four underlying managers and a revised mandate.

At the same time, a weighted composite benchmark is being introduced to replace the current Bloomberg Barclays Global Aggregate Index. This composite benchmark will align benchmark weightings with the underlying managers' objectives and strategies.

The revised breakdown for AIF Q is as follows:

Mandate	Underlying manager benchmark	Weighting	Fund manager	Target weight %	Range %
Global sovereign bonds	Bloomberg Barclays Global Treasury GDP Weighted by Country Index (NZD)	63%	Colchester AMP Capital Australia	31.5 31.5	29-34 29-34
Global credit	Bloomberg Barclays Global Aggregate – Corporate Index (NZD)	22%	Morgan Stanley	22.0	17-27
Global securitised	Bloomberg Barclays Global Aggregate – Securitised Index (NZD)	15%	Wellington	15.0	10-20
Total		**100%**		**100.0**	

Further information on each of the underlying fund managers is set out in Appendix A.

Fund structure

The AMP Capital Australia global sovereign bond mandate will be held in a New Zealand domiciled unit trust. The fund continues to give investors access to a multi-manager approach of investing in a diversified range of fixed interest strategies targeting a fully hedged position to the New Zealand dollar.

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ESG integration

In addition to these changes, the Statement of Investment Policy & Objectives (SIPO) has been changed to increase ESG integration in AIF Q. The Fund will be managed to specific 'responsible investment' criteria which prohibits investments in certain companies or activities, and encourages investment in companies with strong ESG characteristics. The underlying managers will be governed by the Responsible Investment Charter, and a copy of this Charter is attached.

The inclusion of the Responsible Investment Charter will not alter the active managers' investment objectives. However, the global sovereign bonds and global credit sectors will need to meet the ESG criteria set out in the Charter, and invest in securities that are deemed investment grade by the AMP Capital ESG Research team.

Client objectives

Typically, investors that invest in AIF Q are using it along with other investments as part of a well diversified portfolio to meet their overall investment and objective needs. These clients look to fixed interest strategies through the 'lens' of the diversified portfolio and seek 'risk insulation' and active return strategies that are lowly correlated with their market portfolio of growth assets. The hierarchy of client needs for these investors is skewed towards diversification and liquidity.

Target return and tracking error

The target return and target tracking error is provided below. These are largely unchanged from the current structure; the target risk is modestly lower with the same information ratio target.

Mandate	Target alpha (% pa)	Target tracking error (%)	Target information ratio[1]
Revised structure	0.80	1.60	0.50
Current structure	0.88	1.76	0.50

Benefits of the new strategy

By reducing Colchester's weighting and adding AMP Capital to the global sovereign bonds strategy, we expect the following benefits for the Fund:

> Greater diversification and a smoother return profile. Manager concentration risk is reduced by diversifying the global sovereign bonds segment between two equally-weighted managers.

> Less correlation to growth assets and improved defensive properties. The decreased exposure to Colchester will reduce the overweight to pro-cyclical emerging markets (which is favoured by Colchester).

> The allocation to AMP Capital is expected to provide further downside protection for the core fixed interest strategy. Our analysis indicates that incorporating the AMP Capital fund will likely result in a better outcome in severe market downturns.

In addition, the integration of ESG factors will increase the responsible investment focus of the Fund and leverage off AMP Capital's expertise in the ESG area. This will help provide greater insights into the areas of potential risk and opportunity that can impact the value, performance (risk and/or return) and reputation of the Fund's underlying investments.

Transition

A transition manager will be appointed to transition the assets from Colchester to AMP Capital. The cost of transitioning assets within the global sovereign bonds sector is estimated at 10 basis points (bps) which, based on a sector weighting of 63%, equates to 6.3 bps at Fund level. The transition is expected to be completed around 30 November 2017.

Fees

There are no changes to your investment management fees.

Further information

If you have any questions about these changes to the Hedged Global Fixed Interest Fund, please contact your relationship manager.

Yours sincerely,



Rebekah Swan
Head of Distribution
AMP Capital

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[1] The information ratio is a measure of the risk-adjusted return of the Fund. It is calculated by dividing the alpha by the tracking error. The higher the information ratio, the higher the alpha of the Fund relative to the amount of risk taken to achieve the alpha.

Hedged Global Fixed Interest Fund

Underlying managers

Colchester Global Investors

Style/focus – Global government

Colchester is a value-oriented manager. At the heart of Colchester's philosophy is the belief that investments should be valued in terms of the income they will generate in real terms. The investment approach is based on the analysis of inflation, real interest rates and real exchange rates, supplemented by an assessment of sovereign financial balances – fiscal, external and monetary. Portfolios are constructed to benefit from those opportunities with greatest relative investment potential for a given level of risk.

Colchester only invests in high quality sovereign bonds. The universe includes markets that are investment grade or higher. Colchester applies a qualitative screen to all high quality investment grade countries to decide upon their inclusion, or otherwise, in the opportunity set. Size of market, liquidity, institutional structure, regulatory environment, capital regulations, political environment, stability issues, etc, are all considered by Colchester in its determination of the suitability of a country to be included in the opportunity set.

Colchester provides a strong fit within the disaggregated global bonds structure in that it brings a rigorous and conscientious approach to analysing the fundamentals of a country (sovereign issuer). This strong macro approach, along with a distinct specialisation investing in sovereign bonds makes it a sound operator in its role in managing this sleeve, and a strong addition to the global fixed income disaggregated strategy complementing the other specialist managers.

AMP Capital

Style/focus – Global government

AMP Capital's fixed income investment approach combines an experienced and highly capable investment team with a disciplined, risk controlled investment process to deliver active returns. The structure utilises the team's macro fixed income capabilities to manage a core portfolio of global sovereign bonds, providing investors with additional diversification benefits.

AMP Capital's process is a mix of quantitative and qualitative approaches, which are transparent and rigorous. They believe in quantifying influences on asset prices wherever possible and their macro process incorporates a variety of tools and analysis as inputs into their decision making. At the same time, they recognise that not all information is quantifiable, so they take their models as a base and then overlay qualitative information. Their research, in its entirety, describes the global macroeconomic landscape which is then applied to individual sources of risk. Positions are taken where there is high conviction and competitive advantage, while avoiding those areas where insights are less established.

AMP Capital place particular emphasis on the bottom-up information on companies and industries that they receive from their team of stock-specific analysts. AMP Capital use this information to corroborate their top-down research. This reflects their philosophy that neither top-down nor bottom-up analysis is right all the time.

AMP Capital break the sources of risk in their funds into separate areas and assign specialist investment professionals to each area. Their investment professionals utilise the breadth of research from the Fixed Income team and across the firm to make assessments on the importance of factors that are common to all areas. Their approach is therefore heavily team based.

Morgan Stanley Investment Management (MSIM)

Style/focus – Global credit

The MSIM strategy is a barbell strategy with a combination of: (i) global franchise credits with defensive characteristics; and (ii) sector rotation and relative value credit strategies. The portfolio management of these two strategies is comprehensive rather than discrete. The strategy aims to deliver 25-75 basis points relative to the benchmark in a normal market environment but would significantly out-perform in an environment where credit spreads widen materially.

The investment team at MSIM believes that market participants may often misvalue a company's default risk, resulting in bond prices that fail to reflect the true credit profile of a company. However, the team believes that the market, over time, will re-value the bond prices of issuers based on an improving credit profile, thereby offering investors in undervalued issuers the opportunity to potentially exploit these pricing inefficiencies and earn superior returns over the long term.

Morgan Stanley's well-resourced and experienced team of investment professionals bring a proven and well thought out approach to managing corporate credit focused fixed income portfolios. This makes MSIM a strong addition to the global fixed income disaggregated strategy, complementing the other specialist managers through a focus on generating alpha in the credit space.

Wellington International Management

Style/focus – Global securitised

Wellington employs a balanced strategy that utilises a combination of 'security selection' / 'relative value' strategies and 'sector rotation'. The risk characteristics of the strategy are in line with the benchmark.

Wellington's investment process combines top-down idea strategy with bottom-up fundamental research and pervasive risk control. The investment process begins with the development of a strategic outlook. After forming an opinion on the sectors most likely to offer superior returns, Wellington Management's sector research analysts identify their bottom-up research and security recommendations. They believe that there are significant opportunities for active managers to add value to client portfolios by exploiting mispricings of prepayment and volatility risk.

Wellington Management's securitized investment team provides a strong specialist securitized bond management component within the global bond structure. Its competency in this space is supported by its strong and capable resourcing and global presence, which provides an excellent building block in the disaggregated global bond strategy, complementing the other specialist managers.

RESPONSIBLE INVESTMENT CHARTER

APRIL 2017



CHARTER OF OPERATION

RESPONSIBLE INVESTMENT CRITERIA

The AMP Capital Responsible Investment Leaders range of funds (RIL Funds) comprise:

> Responsible Investment Leaders Conservative Fund
> Responsible Investment Leaders Growth Fund
> Responsible Investment Leaders Balanced Fund
> Responsible Investment Leaders NZ Shares Fund, and
> Responsible Investment Leaders Global Shares Fund.

The RIL Funds have a long-term investment strategy that recognises broader environmental, social and ethical considerations, labour standards and corporate governance factors can impact long term business success. The Funds will invest in funds or through managers, which have a demonstrable process for taking these matters into account.

FUNDS SELECTION APPROACH

The process used for identifying funds for selection involves the following key elements.

Exclude investment in areas of high social impact

The RIL Funds will avoid companies operating significant production or manufacturing within sectors with recognised high negative social impact. This means the RIL Funds will avoid exposure (either directly or indirectly through underlying funds and managers) to companies with a material exposure to the production or manufacture of:

> tobacco
> uranium (including nuclear power)
> armaments
> gambling
> alcohol, and
> pornography.

Further to this, the Responsible Investment Committee recommends avoidance of companies deriving substantial revenue from the sale (rather than production or manufacture) of these negative social impacts. A company deriving more than 10% of its total revenue from these industries constitutes material exposure.

However, for those companies involved in the production of tobacco or 'controversial weapons', or essential components of them, a zero revenue materiality test applies. Controversial weapons are considered to be land mines, cluster munitions, nuclear weapons and biological or chemical weapons.

In addition, with the combustion of fossil fuels being the main source of global greenhouse gas emissions, the RIL Funds seek to limit exposure to companies which have a material exposure to the most carbon intensive fossil fuels by excluding any company that has more than a 20% exposure (as measured by percentage of market capitalisation, or other appropriate financial metric) to one, or a combination of, the following:

> mining thermal coal
> exploration and development of oil sands
> brown coal (or lignite) coal-fired power generation
> transportation of oil from oil sands
> conversion of coal to liquid fuels/feedstock.

Assess fund based on financial and social and environmental factors

Global share funds (or managers) will be selected based on their traditional financial assessment process and ability to factor broader social and environmental factors into company selection. While financial assessment is the primary consideration, there is growing evidence that insights on social and environmental factors can give insights into intangible assets of a company, and its market valuation.

Specifically, the RIL Funds will strive to seek out global share funds (or managers) which are identifying companies that are leaders across industries in their responsible approach in a range of areas, including:

- Environmental considerations including energy and resource use and product stewardship (for example, where a company takes into account the life cycle of the product, from manufacture to the extent to which the product can be recycled).
- Social considerations including community involvement in indigenous relations.
- Governance considerations, including meeting corporate governance guidelines on board structures and remuneration.
- Ethical considerations, including meeting fundamental human rights, and articulating and implementing a code of conduct.
- Labour standards including Occupational Health and Safety, International Labour Organisation (ILO) standards, working conditions and exclusion of child labour.

Further towards the goal of seeking responsible investment, investment managers will also be well regarded if they actively participate in corporate engagement and corporate governance initiatives on behalf of the Fund.

Other asset classes

When selecting funds to invest in for other asset classes, in addition to considering the capacity to deliver strong financial returns and the risk/diversification characteristics of the fund, weight will also be given to the underlying fund's ability to substantially meet the responsible investment criteria outlined above in this Charter.

As a minimum, the funds should meet the negative screening criteria outlined above. Additionally, for direct property and alternative assets, environment considerations are taken into account.

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