

Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a total return (interest income and capital growth) after costs and before taxes, above the performance benchmark (60% - Bloomberg AusBond Composite Bond All Maturities Index / 40% - Barclays Global Aggregate Bond Index (hedged to Australian dollars)), on a rolling three-year basis. The strategy provides exposure to a diversified portfolio of Australian and international fixed income securities including government securities, government-related securities, inflation-linked securities, corporate securities, asset-backed securities, cash, derivatives and foreign currency. The strategy diversifies manager risk across a range of investment managers by using a multi-manager approach. Exposures are to managers who demonstrate competitive advantages, within the various investment styles used when investing in the Australian and international fixed income markets.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Low to Medium
Investment style	Active
Manager style	Multi-manager
Asset Allocation	Benchmark (%)
Australian Fixed Interest	60
International Fixed Interest	40
Cash	0

Actual Allocation	%
International Fixed Interest	62.99
Australian Fixed Interest	36.76
Cash	0.25

Fund Performance

The Fund posted a positive return (before fees) for the September quarter but underperformed the benchmark. All the underlying managers produced positive absolute returns and three outperformed their respective benchmarks.

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Credit positioning was the main driver of performance, with both the excess carry earned on credit securities held and credit spread movements contributing to returns. Interest rate management also benefited performance, as the contribution from duration management more than offset the impact of yield curve positioning. At the sector level, overweight exposures to securitised product, diversified financials and banks were the main contributors to performance. An underweight exposure to supranationals was the only detractor.

AB outperformed its cash benchmark. Sector and security selection benefited performance, reflecting contributions from selection within European Treasuries and investment-grade corporates in Europe and the US. Country allocation and yield curve positioning also contributed to returns, reflecting the positive impact of positioning in the US. Currency allocation detracted from performance, reflecting the negative impact of an underweight position in the US dollar.

Schroders outperformed its benchmark. Interest rate positioning contributed to performance over the quarter, notwithstanding a modest detraction from a long duration position in September. A long allocation to Australian investment grade credit and an effective short position in US high yield securities enabled the portfolio to earn extra income versus the benchmark.

PIMCO underperformed its benchmark. An overweight duration position in the US detracted from performance, although this was partially offset by overweight exposures to Italy and Australia. Allocations to inflation-linked securities detracted as breakevens narrowed in response to ongoing global trade tensions, while an overweight allocation to securitised assets and credit spread tightening were positive contributors. Long currency exposure to the emerging markets detracted from performance, more than offsetting the contribution from a long position in the Japanese yen.

Market Review

Global government bond markets rallied into the widely anticipated move by the US Federal Reserve to ease monetary policy following its meeting on 31 July and picked up momentum during August as an escalation of the US-China trade dispute eroded investor confidence in global economic growth prospects. In September, bond yields initially moved higher amid indications that the US economy continues to create new jobs, however yields subsequently retraced part of their rise after drone attacks on Saudi Arabian oil facilities saw the return of 'risk off' sentiment and the US Federal Reserve announced further monetary easing. Monetary policy similarly dominated news flow in the domestic bond market. After lowering the official cash rate in early July, the Reserve Bank of Australia maintained an unchanged monetary policy stance in August. However, it left the door open for further easing, which duly occurred with a further 0.25% rate reduction post the quarter end. Global credit markets rallied strongly early in the quarter, as central banks provided monetary policy support, while reasonable US corporates' earnings results overall also boosted markets. Geopolitical influences dominated credit markets in September, with the US-China trade dispute being a key theme.

Outlook

Very low sovereign bond yields point to a low medium-term return potential from global sovereign fixed interest. However, with a generally benign inflationary environment, an unresolved US-China trade dispute causing a flight to safety, and a general bias from central banks towards more accommodative stances; any upward pressure on bond yields is now likely to be subdued for the time being. Lower bond yields may persist, at least until the global economic environment shows signs of improved sentiment, momentum and visibility.

Low Australian sovereign bond yields point to a low medium-term return potential from Australian sovereign fixed interest. But with benign inflation, ongoing geopolitical risks, and the Reserve Bank of Australia's easing bias, against a backdrop of soft growth, any upwards pressure on bond yields is likely to be subdued for the time being. Lower bond yields may persist, at least until the global and Australian economic environment shows signs of improved sentiment, momentum and visibility.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1959AU
AMP Flexible Super - Retirement account	AMP1966AU
AMP Flexible Super - Super account	AMP1973AU
CustomSuper	AMP1959AU
Flexible Lifetime - Allocated Pension	AMP1952AU
Flexible Lifetime - Investments (Series 2)	AMP1991AU
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Select	AMP1975AU

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