

AMP Australian Bond

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide a total return (income and capital growth) above the Bloomberg AusBond Composite 0+ Yr Index on a rolling 12-month basis. The portfolio invests primarily in Australian government bonds and credit securities and the portfolio may also invest in global fixed income securities, and derivatives in global fixed income markets, which may include a small exposure to emerging markets. Exposure to global fixed interest securities will principally be hedged back to Australian dollars.

Investment Option Performance

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

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	2 years
Relative risk rating	Medium
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian Fixed Interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	2.56
Australian Fixed Interest	96.18
Cash	1.26

Sector Allocation	%
Investment Grade Corporate	45.47
Government Agencies/Regionals	31.61
Developed (Non-US) Sovereign Debt	11.85
Agency MBS	7.81
Cash	1.26
High-Yield Corporate	1.15
ABS (Non-Mortgage)	0.92

Top Holdings	%
AUSTRALIAN GOVERNMENT	11.85
NEW S WALES TREASURY CRP	6.69
QUEENSLAND TREASURY CORP	6.58
WESTERN AUST TREAS CORP	3.20
Westpac Banking Corp	2.78
Australia & New Zealand Banking Group Ltd	2.58
INTER-AMERICAN DEVEL BK	2.53
SOUTH AUST GOVT FIN AUTH	2.22
TREASURY CORP VICTORIA	2.11
National Australia Bank Ltd	2.05

Quality Allocation	%
Agency/Government	31.61
BBB	20.47
A	16.34
AAA	12.61
Treasury	11.85
AA	4.77
Cash	1.26
BB	0.96
CCC	0.21

Fund Performance

The Fund posted a negative return (before fees) in the December quarter but outperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by AMP Capital, slightly outperformed its benchmark. The smaller inflation-linked component, managed by Ardea, outperformed its benchmark. Both managers generated negative absolute performance.

A long duration position in Australia was the main detractor from AMP Capital's performance amid heavy selling and poor market liquidity in the lead up to Christmas. Long duration positions in Canada and New Zealand also detracted from performance, more than offsetting the contribution from short duration positions in the US, Europe and the UK.

Inflation-linked bond fund manager Ardea's relative performance benefited from an inflation steepening position held against the backdrop of a recovery in market sentiment and a recovery in longer-dated breakevens. Performance also benefited from an overweight exposure to interest rate swaps, as swap spreads narrowed over the quarter, and the successful implementation of interest rate protection strategies.

Market Review

Australian government bond yields moved higher over the course of the December quarter, aided primarily by the reduction of key geopolitical risks relating to US-China trade and Brexit. After reacting somewhat earlier in the quarter to a widely-expected cut of 0.25% in the official cash rate by the Reserve Bank of Australia amid continuing mixed local data, domestic bond investors generally largely followed their overseas counterparts during the period as optimism returned to markets. However, the rise in domestic yields was constrained by the negative impacts of ongoing uncertainty with regard to domestic economic growth prospects, which saw the Reserve Bank of Australia slightly downgrade its consumption and economic growth forecasts for the fourth time in 2019, citing the impact on incomes of the drought, higher taxes and a downturn in investments. The Commonwealth Government 2-year bond yield ended the quarter at 0.92%, while the 10-year bond yield ended at 1.31%.

Outlook

Weaker than expected economic conditions are likely to motivate the Reserve Bank of Australia to provide further policy accommodation, despite the easing already provided to date. However, current market pricing largely reflects this outcome and as a result further moves in shorter-dated yields are likely to be more muted unless the outlook materially deteriorates. Longer-dated yields should be inclined to continue to closely reflect global risk sentiment, although the majority of outperformance against the US is likely behind us.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0343AU
AMP Flexible Super - Retirement account	AMP1319AU
AMP Flexible Super - Super account	AMP1449AU
CustomSuper	AMP0343AU
Flexible Lifetime - Allocated Pension	AMP0590AU
Flexible Lifetime - Investments (Series 1)	AMP1048AU*
Flexible Lifetime - Investments (Series 2)	AMP1388AU
Flexible Lifetime - Term Pension	AMP0890AU
SignatureSuper	AMP0738AU
SignatureSuper - Allocated Pension	AMP1128AU

*Closed to new investors

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