Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 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 (%)
Cash	0
International Fixed Interest	40
Australian Fixed Interest	60

Actual Allocation	%
International Fixed Interest	62.34
Australian Fixed Interest	36.72
Cash	0.94

Fund Performance

The Fund posted a negative return (before fees) for the December quarter but outperformed the benchmark. Three of the underlying managers outperformed their respective benchmarks.

Within the Australian bonds sector, AMP Capital performed in line with its benchmark.Credit positioning benefited performance, reflecting the contribution from the excess carry earned on credit securities held and credit spread movements. Interest rate management detracted from performance, primarily reflecting the impact of duration management. At the sector level, overweight allocations to banks – subordinate and securitised product, and an underweight allocation to diversified financials were the main contributors to performance. An underweight allocation to supranationals was the only detractor.

AB outperformed its cash benchmark. Sector and security selection benefited performance, reflecting contributions from selection within investment-grade corporates in Europe, the US and the UK. Security selection among European high-yield corporates, US inflation-linked securities, commercial mortgage-backed securities and emerging market sovereign bonds also added value.

Schroders outperformed its benchmark. Allocations to high quality credit securities contributed to performance, which also benefited from a contraction in credit spreads. Inflation-linked bond holdings and yield curve steepening exposures also added value.

PIMCO outperformed its benchmark. Performance benefited primarily from US agency mortgage backed securities (MBS), an overweight allocation to high-yield financials and investment grade industrials, and US inflation-linked bond holdings. Agency and non-agency mortgage backed securities (MBS) and emerging market debt holdings also added value as risk sentiment was boosted by the Phase 1 trade deal between the US and China, and the passing of the USMCA trade deal.

Market Review

Global government bond yields trended higher for the majority of the December quarter, with markets buoyed by optimism stemming from improving trade relations between the US and China which could lead to a resolution of their long running trade dispute, while risk of a hard Brexit in the UK was reduced in December following the resounding re-election of Prime Minister Johnson's Conservative party. In a period where markets experienced bouts of volatility, global central banks continued to provide stimulatory monetary conditions, with the US Federal Reserve cutting the Federal Funds Rate earlier in the quarter by a further 25 basis points to 1.50-1.75%. Australian government bond yields similarly moved higher over the quarter. 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.

Outlook

Although the US and China have reached a preliminary trade deal, there remains a downside bias in global bond yields. The last few months have seen significant uncertainty injected into the global outlook amid a broader slowdown in activity. Sentiment has become more cautious, with bond markets pricing in an increased likelihood that further monetary stimulus will be required. Trade tensions have been the primary cause but an ongoing slowdown in global capital expenditure has contributed.

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	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

Contact Details

Web: **www.amp.com.au**
Email: askamp@amp.com.au
Phone: 131 267

What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL), AMP Capital Funds Management Limited ABN 15 159 557 724, AFSL 426455 (AMPCFM), ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from the issuer or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (Specialist Diversified Fixed Income). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.