

Schroder Fixed Income

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

To obtain exposure to a range of domestic and international fixed income assets with the objective of outperforming the Bloomberg AusBond Composite 0+Yr Index, whilst delivering stable absolute returns over time. The option adopts a Core-Plus investment approach whereby a core portfolio comprising of Australian investment grade bonds (including government, semi-government, supranational and corporate bonds) is complemented by investments in a diverse range of global and domestic fixed income securities. The targeted result is a defensive strategy which is broadly diversified with low correlation to equity markets.

Investment Option Performance

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

Investment Option Overview

Investment Category	Fixed Interest
Suggested Investment timeframe	3 to 5 years
Relative risk rating	3/ Low to medium
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Aust. Investment Grade	99.99%	70.6%
Cash & Equivalents	0%	14.8%
Global Investment Grade	0%	3.1%
Australian High Yield	0.01%	8.8%
Global High Yield	0%	2.6%

Sector Allocation	%
Cash & Equivalents	10.9
Government	9.6
Semi-Government	18.5
Supranational/Sovereigns	18.4
Corporates	31.0
Subordinated	3.9
Collateralised	7.7

Quality Allocation	%
AAA	39.7
AA	17.2
A	7.6
BBB	22.8
Below BBB	1.9
Cash & Equivalents	10.6
Not Rated	0.1

Top Holdings	%
INTERNATIONAL BANK FOR RECONSTRUCT 2.8 13-JAN-2021 (SENIOR)	2.1
NEW SOUTH WALES TREASURY CORP NONDMUNI 5.0 20-AUG-2024	1.9
AUSTRALIA (COMMONWEALTH OF) 4.5 21-APR-2033 Reg-S	1.9
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2026	1.8
AUSTRALIA (COMMONWEALTH OF) 3.75 21-APR-2037 Reg-S	1.7
NEW SOUTH WALES TREASURY CORP NONDMUNI 2.75 20-NOV-2025	1.7
QUEENSLAND TREASURY CORP NONDMUNI 4.25 21-JUL-2023	1.3
WESTERN AUSTRALIAN TREASURY CORPOR NONDMUNI 6.0 16-OCT-2023	1.3
AUSGRID FINANCE PTY LTD 3.75 30-OCT-2024 (SECURED)	1.2
AUSTRALIA (COMMONWEALTH OF) 2.75 21-NOV-2027 Reg-S	1.2

Investment Option Commentary

Over the March quarter, the Schroder Fixed Income Fund had positive returns. By month, January and February were decent months, as bond yields continued to grind lower, however March delivered a small negative return through considerable volatility. Returns in March and for longer timeframes that include the March month are impacted by the widening of the sell-side spread the Manager imposed on the Fund. This widening reflects greater transaction costs associated with reduced market liquidity and is intended to preserve fairness amongst unitholders.

Over the quarter, the Fund's long duration position added significantly to performance, however this was more than offset by underperformance of our credit and inflation linked exposures, despite the high quality of these exposures and the Fund's modest overweight positions. Over the year, the Fund's rates positions contributed to return via duration & curve positioning, as well as additional return from carry owing to credit positions. However, credit assets detracted via spread changes, as did our inflation linked exposures, particularly during the March quarter, despite the high quality of these exposures and our modest overweight positions.

Market Commentary

The month and the quarter were dominated by the pandemic. In January, the investment manager learnt that a novel coronavirus had begun to infect citizens of Wuhan in China. As Chinese authorities responded to the outbreak by locking down provinces and extending the New Year holidays, they saw bond markets respond to the hit from growth via weaker Chinese activity, while risk assets generally held based on the assumption that the virus would be contained in China. Realisation that the virus was spreading globally, and a better understanding of the economic cost of social distancing required to mitigate the spread, saw risk assets fall sharply in March. Authorities also stepped into the fray, with a combined fiscal stimulus of around US\$5 trillion and central banks lining up to buy US\$7 trillion of financial assets through Quantitative Easing.

Global equities returned -20% over the quarter, in local currency terms, seeing one of the worst quarterly performances recorded, as market participants moved to price in a global recession. Australian equities also fell sharply, returning -23% in the quarter. Global government bond yields generally saw large falls, led by the US where 10-year yields fell by 1.25% over the quarter, ending March with a yield of 0.67%. 10-year yields fell by 0.29% in Germany and rose by 0.03% in Japan over the quarter. Australian bonds yield fell in line with the global trend, with 10-year yields moving lower by 0.61%, to end the quarter at 0.76%. Credit spreads jumped over the quarter as market participants contemplated a rise in defaults due to the slump in economic activity, most notably in high yield where spreads widened by over 500bps. Elsewhere, there was a sharp fall in oil prices, with the WTI benchmark falling by over 65% during the quarter due to a price war between Russia and Saudi Arabia, with both countries vowing to raise production.

Outlook

The investment manager spent January, February and early March building its duration position, particularly in the US, and paring back its exposure to Australian investment grade credit. Later in March, with markets having materially re-priced, the Manager scaled back its duration position and carefully added back some corporate exposure.

The investment manager notes that the Portfolio retains its high quality and liquidity features. The Manager is mindful of retaining these features when considering the extent to which to rebalance the portfolio towards the opportunities that have emerged, but as the extent of the economic damage emerges and as the likely protracted nature of the recovery becomes clearer, the Manager expects to continue to tilt the portfolio towards more attractive assets. The Manager believes this environment should reward its active approach and risk focus.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1288AU
AMP Flexible Super - Retirement account	AMP1376AU
AMP Flexible Super - Super account	AMP1505AU
CustomSuper	AMP1288AU
Flexible Lifetime - Allocated Pension	AMP1295AU
Flexible Lifetime Investment (Series 2)	AMP2040AU
SignatureSuper	AMP1302AU
SignatureSuper Allocated Pension	AMP1309AU

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