

AMP Australian Bond

Quarterly Investment Option Update

30 June 2020

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	3.25
Australian Fixed Interest	94.69
Cash	2.06

Sector Allocation	%
Investment Grade Corporate	51.30
Government Agencies/Regionals	26.79
Developed (Non-US) Sovereign Debt	10.10
Agency MBS	7.48
Cash	2.06
High-Yield Corporate	1.46
ABS (Non-Mortgage)	0.79
Other	0.03

Top Holdings	%
Australian Government	10.10
New South Wales Treasury Corp	7.28
Queensland Treasury Corp	4.63
Western Australia Treasury Corp	4.33
South Australia Govt Fin Auth	2.95
Australia & New Zealand Banking Group Ltd	2.34
Westpac Banking Corp	2.02
National Australia Bank Ltd	1.96
Treasury Corp Victoria	1.78
Australian Capital Territory	1.70

Quality Allocation	%
Agency/Government	26.79
BBB	24.20
A	20.43
AAA	12.66
Treasury	10.10
AA	2.42
Cash	2.06
BB	1.26
CCC	0.22

Fund Performance

The Fund posted a positive return (before fees) in the June quarter and outperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, posted a positive absolute return and outperformed its benchmark. The smaller inflation-linked component, managed by **Ardea**, also posted a positive absolute return and outperformed its benchmark.

AMP Capital's performance benefited from inflation-linked bond positions in the US, Australia and New Zealand. These positions more than offset the impact of duration positioning in the US and Europe.

Inflation-linked bond fund manager **Ardea** benefited from an overweight allocation to selected long-dated government bonds and a hedge on the associated duration exposure. Positioning in semi-government bonds also contributed to performance as spreads narrowed, while the overall impact of inflation strategies was broadly neutral.

Market Review

Australian government bond yields moved higher over the first week of April as the Reserve Bank of Australia moderated the pace of its bond purchase program which had restrained earlier upward pressure on yields. Yields subsequently moved broadly sideways as favourable trends in domestic high-frequency economic data were counterbalanced by cautionary outlook comments from the US Federal Reserve, renewed trade tensions between the US and China and rising COVID-19 case numbers. The Commonwealth Government 10-year bond yield rose by 11 basis points over the quarter to 0.87%, while its 2-year counterpart ended unchanged at 0.25%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were around 0.5% for the period in Australian dollar terms.

Australian credit spreads widened slightly early in the quarter amid falling crude oil prices, before subsequently tightening over the remainder of the quarter as market sentiment was bolstered by the view that further global and domestic economic deterioration would prompt further monetary and fiscal stimulus. This tightening trend was further reinforced by sustained strength in the demand for credit amid the volume of maturities outweighing that of issuance over the course of the year to date.

Outlook

In response to the impact of COVID-19, the Reserve Bank of Australia took emergency measures in March by cutting its policy rate to a record low of 0.25% and instituted a yield curve control policy whereby it targets the 3-year bond yield at 0.25% as well. Further stimulus measures will be required to maintain the productive capacity of the economy. Given structural issues around an indebted consumer, which will likely see monetary policy constant for an extended period of time, we expect low volatility in Australian rates to continue.

Availability

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

*Closed to new investors

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