

# AMP Capital Corporate Bond

## Quarterly Investment Option Update

30 June 2020

### Aim and Strategy

To deliver to investors regular monthly income (which exceeds the income from term deposits and government bonds) whilst seeking to provide capital stability to investors over the medium term. The portfolio also seeks provide total returns (primarily income with some capital growth) above the Bloomberg AusBond Bank Bill Index over a rolling three-year basis. The option invests in an actively managed portfolio of corporate bonds , primarily on investment grade rated corporate bonds in the Australian market and also has exposure to global bond markets. Exposure to global credit 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](http://www.amp.com.au)

### Investment Option Overview

<b>Investment category</b>	Australian Fixed Interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Relative risk rating</b>	Low to Medium
<b>Investment style</b>	Active
<b>Manager style</b>	Single

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

Actual Allocation	%
International Fixed Interest	7.19
Australian Fixed Interest	88.55
Cash	4.26

Sector Allocation	%
Investment Grade Corporate	81.27
Agency MBS	10.12
High-Yield Corporate	4.60
Cash	4.26
ABS (Non-Mortgage)	1.26

Top Holdings	%
Australia & New Zealand Banking Group Ltd	2.95
Westpac Banking Corp	2.78
National Australia Bank Ltd	2.43
VOLKSWAGEN FIN SERV AUST	2.34
Sumitomo Mitsui Financial Grou	2.31
BPCE SA	2.12
Banco Santander SA	2.02
BANK OF MONTREAL	1.98
BHP BILLITON FIN USA LTD	1.92
Qantas Airways Ltd	1.90

Quality Allocation	%
BBB	42.22
A	35.29
AAA	12.35
Cash	4.26
BB	3.81
AA	2.79
CCC	0.79

## Fund Performance

The Fund produced a positive absolute return in the June quarter.

Australian credit spreads widened in April (and in contrast to moves experienced in offshore markets) as the domestic market came to terms with continued uncertainty on the economic glidepath post-COVID19, and with a domestic credit market which had materially outperformed the weakness experienced offshore. Spreads subsequently tightened significantly over the remainder of the quarter as market sentiment was bolstered by a range of massive fiscal and monetary support programmes implemented globally.

At the sector level, the better performers over the quarter were from the Fund's exposures to subordinated bank paper, materials and repo-eligible bank senior debt.

At the security level, exposures to hybrid securities from BHP Billiton, Tier 2 debt across the Australian major banks (and National Australia Bank in particular), and Intel Corp were the main positive contributors. Exposures to BAA Funding and Hyundai Capital Services were the only detractors of note.

During the period, the Fund participated in primary issuance from Sumitomo Mitsui Banking Corporation, Brisbane Airport Corporation, Credit Suisse (Sydney Branch), Woolworths Group, Macquarie Bank, Scentre Group, Optus Finance, Airservices Australia and WSO Finance.

## Portfolio Positioning

The conservative portfolio positioning we had coming into the COVID-related selloff has meant that our exposures have bounced back fairly quickly, and we have been able to take advantage of opportunities that have arisen in this intervening period. Current positioning has our credit exposures generating a strong level of excess yield, whilst not being overly exposed to any potential future bouts of volatility through the threat of a second wave of infections and weaker than anticipated economic growth.

Our fundamental sector and stock selection process continues to emphasise quality issuers whose credit profiles are supported by strong operating cash flows, sound liquidity profiles and an ability to maintain their credit ratings through the cycle. The depth of our research has also helped us identify sectors and issuers where the market reaction has been too fearful and has enabled us to purchase quality corporates at bargain prices.

## 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	AMP1452AU
AMP Flexible Super - Retirement	AMP1322AU
CustomSuper	AMP1289AU
Flexible Lifetime - Allocated Pension	AMP1296AU
Flexible Lifetime - Investments (Series 2)	AMP2037AU
Flexible Lifetime - Super	AMP1289AU
SignatureSuper	AMP1303AU
SignatureSuper - Allocated Pension	AMP1310AU
SignatureSuper Select	AMP1303AU

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267



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