



Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 June 2020

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

Actual Allocation	%
International Fixed Interest	62.49
Australian Fixed Interest	36.97
Cash	0.54

Fund Performance

The Fund posted a positive return (before fees) for the June quarter and outperformed the benchmark. All of the underlying managers posted positive absolute returns and outperformed their respective benchmarks.

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Credit positioning contributed to performance, reflecting the contributions from credit spread movements and the excess carry earned on credit securities held. Interest rate management also contributed positively to performance. At the sector level, overweight allocations to banks – subordinate, diversified financials and materials were the main contributors to performance. An underweight allocation to supranationals was the only detractor.

AB outperformed its cash benchmark. Performance benefited from spread tightening in investment grade and high-yield corporate bonds, and allocations to credit risk transfer securities, US inflation-linked securities, quasi-sovereigns, asset backed securities and sovereign issuers within Europe and the emerging markets. Country and yield curve positioning also contributed to performance, more than offsetting the impact of currency positioning and an allocation to US commercial mortgage backed securities.

Schroders outperformed its benchmark. Credit allocations were the main contributors to performance as spreads narrowed substantially following a sharp widening in March. The contribution from rates positions was slightly positive, as yield movements were moderate as inflation expectations rose slightly from previously low levels.

PIMCO outperformed its benchmark. Performance benefited mainly from sector selection, primarily an overweight exposure to investment grade financials and industrials and high-yield financials, which outperformed as credit spreads tightened. Exposure to US inflation-linked bonds also contributed as break-evens narrowed. Security selection benefited from the performance of securitised assets, in particular non-agency mortgage backed securities. Duration positioning in the US, Germany, Italy and the UK also contributed to performance.

Market Review

Global government bond yields moved higher in early April despite the US Federal Reserve only slightly slowing its pace of US government bond purchases which had capped upward pressure on yields over previous weeks. Yields subsequently traded sideways through most of May despite shifts in sentiment variously associated with the tentative easing of lockdown restrictions, economic stimulus measures and speculation regarding progress in the development of a COVID-19 treatment. Favourable US economic data provided renewed upward momentum in early June however yields subsequently reversed course as economic sentiment deteriorated amid fears of a 'second wave' of the pandemic. Australian government bond yields similarly moved higher in 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.

Outlook

The outbreak of COVID-19 has likely triggered a global recession and policy makers around the world are having to respond with dramatic levels of monetary and fiscal stimulus. The emergence of COVID-19 within an ongoing weak state of fundamentals and consistently weak inflation, as well as the adoption of yield curve targeting and quantitative easing monetary programs, continues to argue for a bias towards long duration positions, although as global cases peak and the first wave is brought under control we expect there may be some risk asset retracement.

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	AMP1973AU
AMP Flexible Super - Retirement	AMP1966AU
CustomSuper	AMP1959AU
Flexible Lifetime - Allocated Pension	AMP1952AU
Flexible Lifetime - Investments (Series 2)	AMP1991AU
Flexible Lifetime - Super	AMP1959AU
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Select	AMP1975AU

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