

# Schroder Fixed Income

Quarterly Investment Option Update

30 September 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:

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

## Investment Option Overview

<b>Investment Category</b>	Fixed Interest
<b>Suggested Investment timeframe</b>	3 to 5 years
<b>Relative risk rating</b>	5/ Medium to high
<b>Investment style</b>	Core
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Aust. Investment Grade	100%	71.6%
Cash & Equivalents	0%	10.4%
Global Investment Grade	0%	7.9%
Australian High Yield	0%	9.2%
Global High Yield	0%	0.9%

Sector Allocation	%
Government	12.2
Semi-Government	23.5
Supranational/Sovereigns	14.4
Corporates	32.9
Subordinated	5.5
Collateralised	7.4

Quality Allocation	%
AAA	43.6
AA	11.8
A	11.4
BBB	27.6
Below BBB	2.4
Not Rated	2.6

Top Holdings	%
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2026 Dual 144a Reg-S	2.9
NEW SOUTH WALES TREASURY CORPORATI GOVTGUAR 3.0 20-MAR-2028 Reg-S	2.7
AUSTRALIA (COMMONWEALTH OF) 3.25 21-JUN-2039 Reg-S	2.5
INTERNATIONAL BANK FOR RECONSTRUCT 2.8 13-JAN-2021 (SENIOR)	2.1
NEW SOUTH WALES TREASURY CORP NONDMUNI 5.0 20-AUG-2024	2.0
NEW SOUTH WALES TREASURY CORP NONDMUNI 2.75 20-NOV-2025	1.8
TREASURY CORP OF VICTORIA NONDMUNI 5.5 17-NOV-2026	1.5
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2028 Dual 144a Reg-S	1.5
AUSTRALIA (COMMONWEALTH OF) 2.75 21-NOV-2027 Reg-S	1.5
AUSTRALIA (COMMONWEALTH OF) 3.75 21-APR-2037 Reg-S	1.4

## Investment Option Commentary

Over the September quarter the Schroder Fixed Income investment option delivered positive returns (gross of fees)

A small fall in Australian government bond yields supported absolute returns in the quarter, though the strategy's overweight allocation to non-government sectors delivered the bulk of the portfolio's outperformance, due to both the extra income generation and the ongoing spread compression driving capital appreciation. The strategy's long duration positioning in Australia and allocation to inflation linked bonds also added value.

While the first half of the year provided plenty of opportunity to reposition portfolios, in recent months changes to portfolios have been limited. The Manager continues to run modestly more interest rate risk than the benchmark, and remain constructive on credit assets relative to government bonds. Small positioning changes during the quarter included: trimming Australian higher yielding and global high yield allocations, allocating to US securitised and Asian credit assets, and increasing the Portfolio's Australian duration position ahead of likely further RBA easing.

The Manager's overriding focus remains on positioning for quality income generation across a broad opportunity set, keeping the portfolio well diversified and being flexible to both capture opportunities and manage risk.

## Market Commentary

A resurgence of COVID-19 cases in Europe and the inability of Democrats and Republicans in the US to come to an agreement on a fiscal package resulted in weaker equity market performance during September. With monetary policy expected to remain accommodative for the foreseeable future, markets shifted their focus to fiscal policy. There was hope that a fiscal support package would be agreed upon prior to the US election, but that now seems increasingly uncertain with the Democrats and Republicans still at odds regarding the size of the package. On the political front, Joe Biden's likelihood of winning the election has increased in recent weeks according to betting markets, following the first presidential debate and Trump's contraction of COVID-19. In Europe, an uplift in COVID-19 cases resulted in weaker than expected manufacturing data as countries consider reintroducing social distancing restrictions. Domestically, unemployment figures were stronger than expected, though there is greater uncertainty heading forward as Job Keeper starts to unwind. Meanwhile, local bond markets priced in the possibility of another rate cut to 10 bps and further quantitative easing.

Global equities returned -2.9% in local currency terms in September, with most major markets outside of Japan posting negative returns. Over the quarter, global equities still had a strong return of 6.9%, while the Australian market underperformed over the quarter with a return of -0.4%. Australian Government bond yields fell by 0.08% over the quarter to end at 0.79%. In the US, bond yields rose slightly to end the quarter at 0.68%. Bond yields decreased in Germany and Japan during the quarter by 0.07% and 0.01% respectively. Spreads in investment grade and high yield credit, as well as emerging market debt widened moderately during September in conjunction with the sell-off in risk assets, but remain tighter over the quarter. Similarly in FX, the USD strengthened during September as investors shifted to safer currencies, but remains weaker over the quarter.

## Outlook

As spreads have compressed, the investment manager have downgraded their view on corporate bonds compared to a few months ago, and now expect the bulk of near term returns to be driven by income (or carry) rather than further capital gains. Accordingly they've trimmed their exposures a little, mainly away from riskier exposures. Mostly however they've rotated into other parts of the opportunity set that offer better value – that is, better income return for the risk of earning it. For example, within the broad global opportunity set, Asian credit is attractive versus developed country high yield, and US securitised debt is more appealing than US corporate debt. In Australia they've trimmed their Australian higher yielding and RMBS allocations, and within investment grade they've rotated from banks to non-financials, as while banks have led the spread re-pricing in recent months, they think the extent of loss provision likely to be required for banks is underpriced.

## 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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