



# AMP Capital Corporate Bond

## Quarterly Investment Option Update

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

### Investment Option Overview

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

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

Actual Allocation	%
International Fixed Interest	4.24
Australian Fixed Interest	90.79
Cash	4.96

Sector Allocation	%
Investment Grade Corporate	81.69
Agency MBS	11.06
Cash	4.96
High-Yield Corporate	2.87
ABS (Non-Mortgage)	1.29

Top Holdings	%
Australia & New Zealand Banking Group Ltd	3.38
National Australia Bank Ltd	3.16
Sumitomo Mitsui Financial Grou	2.60
COMMONWEALTH BANK AUST	2.50
BPCE SA	2.36
Westpac Banking Corp	2.31
Banco Santander SA	2.15
Qantas Airways Ltd	2.14
BANK OF MONTREAL	2.11
UNITED ENERGY DISTRIBUTI	1.81

Quality Allocation	%
BBB	42.81
A	34.74
AAA	12.62
Cash	4.96
AA	3.88
BB	1.98
CCC	0.89

## Fund Performance

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

Australian credit spreads tightened over the quarter, with bank credits in particular continuing to benefit from the extension of the Reserve Bank of Australia's Term Funding Facility in early September. Sentiment towards banks has also benefited from the favourable results of credit stress testing by the Australian Prudential Regulation Authority. Credit sentiment has been further bolstered by the easing of lockdown restrictions in Victoria, and the consequent boost to the retail and hospitality sectors. Overall, spreads have tightened substantially over recent months and have mostly recovered from their shock widening in March amid the initial impact of COVID-19.

At the sector level, the better performers over the quarter were industrials, real estate, banks and diversified financials, and consumer discretionary.

At the security level, exposures to Brisbane Airport, Qantas Airways, Pacific National Finance, and Scentre Group were the main contributors. Exposures to Lloyd's Banking Group, Driver Australia, National RMBS, and Australian Personal Loans were the main detractors.

We have increased our participation in longer-dated primary issuance in recent months on a selective basis, looking to take advantage of wider credit spreads and elevated credit default and liquidity premia. This has meant that we have been increasing our credit beta gradually. However, it remains the case that the bulk of our credit exposure remains inside a five-year tenor, and with very little in the low-BBB range that may be more at risk of downgrade into high yield.

## Portfolio Positioning

The conservative portfolio positioning we had coming into the COVID-related sell off has meant that our exposures have rebounded 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 without 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 this 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

Stimulus measures implemented in response to the impacts of COVID-19 have clearly bolstered the domestic economy, with a study from the Reserve Bank of Australia showing that the JobKeeper wage subsidy scheme reduced total employment losses by at least 700,000 over the period from April to July, bolstering sentiment within the fixed income market. Domestic economic news flow during the December quarter was highlighted by a rise of 3.3% in gross domestic product in the third quarter, following a record 7.0% fall in the previous quarter. The rebound was largely driven by household spending which rose sharply following the easing of lockdown restrictions in Victoria. The Commonwealth Government 10-year bond yield rose by 18 basis points over the quarter to 0.97%, while its 2-year counterpart ended nine basis points lower at 0.07%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were -0.16% for the period, in Australian dollar terms.

## Outlook

The Reserve Bank of Australia has reduced its policy rate to a record low of 0.10%, essentially zero, with an associated broad-based quantitative easing and bond purchase programme. However, additional stimulus measures will be required to maintain the productive capacity of the economy, although monetary options are now more limited, with negative interest rates unlikely at this juncture. Despite structural issues around an indebted consumer, which could create future risks, we see monetary policy remaining accommodative for the foreseeable future.

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## Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1322AU
AMP Flexible Super - Super	AMP1452AU
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

\*\*Closed to new and existing investors

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