



# Specialist Diversified Fixed Income

## Quarterly Investment Option Update

31 March 2021

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

### Investment Option Overview

<b>Investment category</b>	Global fixed interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Relative risk rating</b>	Medium
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager
<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian Fixed Interest	60
International Fixed Interest	40
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	62.95
Australian Fixed Interest	36.49
Cash	0.56

## Fund Performance

The Fund posted a negative return (before fees) for the March quarter yet outperformed the benchmark. Two of the underlying managers outperformed their respective benchmarks.

Within the Australian bonds sector, **AMP Capital** underperformed its benchmark. Interest rate management detracted from performance, as the impact of the steepening of the Australian yield curve more than offset the contribution from duration management. Credit positioning benefited performance, reflecting the contributions from credit spread movements and the excess carry earned on credit securities held. At the sector level, overweight allocations to banks – subordinate, securitised product and industrials were the main contributors to performance. There were no material detractors.

**AB** underperformed its cash benchmark. Performance was impacted by long duration positions in Australia, the US and the UK, and long positions in the Turkish lira, Brazilian real and Colombian peso. These more than offset the contributions from exposures to investment-grade and high-yield credit, European inflation-linked securities, credit risk transfer securities and US commercial mortgage backed securities.

**Schroders** outperformed its benchmark, having been appropriately re-positioned ahead of the rise in yields over the quarter. Specifically, duration was shortened, allocations to inflation-linked bonds were increased and credit exposures were reduced, particularly in markets where spread movements are vulnerable to rising yields.

**PIMCO** outperformed its benchmark. Performance benefited primarily from sector and security selection within securitised assets and from corporate credit spread tightening. These more than offset the impact of a short position in the US dollar.

## Market Review

Global long-dated government bond yields moved sharply higher over the quarter as continued progress towards worldwide mass vaccination fuelled expectations for a rebound in global economic activity. Legislative approval of the Biden Administration's \$US1.9 trillion stimulus package and stronger than expected US economic data releases, in particular retail sales, industrial production and job openings, stoked inflation expectations despite US Federal Reserve Chair Powell saying that "the economy is a long way from our employment and inflation goal". European Central Bank President Lagarde adopted a similarly cautious tone, saying that European monetary policy remains accommodative and that further quantitative easing will be introduced if necessary. The US 10-year bond yield ended the quarter 82 basis points higher at 1.74%. The German 10-year bond yield rose by 28 basis points to -0.29% and its Japanese counterpart rose by seven basis points to 0.09%.

Australian long-dated government bond yields rose sharply over the quarter. Against a backdrop of mostly favourable economic data, yields were buoyed by the view that progressive vaccine distribution is conducive to resurgent economic growth which, in turn, leads to higher inflation and correspondingly higher bond yields. The upward move extended to shorter maturities, despite the Reserve Bank of Australia adding a further A\$100 billion to its quantitative easing program and saying that a return to a tight labour market to an extent that would warrant an increase in the cash rate is not expected until 2024 at the earliest. The Commonwealth Government 10-year bond yield rose by 82 basis points over the quarter to 1.79%, while its 2-year counterpart ended two basis points higher at 0.09%.

## Outlook

The global economy is preparing to try and pull itself out of the COVID-19 recessionary hole in 2021. The distribution of vaccines has commenced; however, signs of further breakout waves with different strains has complicated the situation. The adoption of yield curve targeting and quantitative easing monetary programs, should mitigate the risk of a major duration sell off, although there is now increased upward pressure on yields as nascent signs of inflation appear. Vaccine distribution programmes should aid a cyclical recovery and the increased normalisation of many economies which, alongside unconventional monetary policy stimulus, should drive a recovery in risk asset markets but is unlikely to solve many of the long-term structural issues that have plagued global economies.

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## Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1966AU
AMP Flexible Super - Super	AMP1973AU
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

\*\*Closed to new and existing investors

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