

AMP Australian Bond

Quarterly Investment Option Update

30 September 2021

Aim and Strategy

To provide a total return (income and capital growth) above the Bloomberg AusBond Composite 0+ Yr Index on a rolling 12-month basis. The portfolio invests primarily in Australian government bonds and credit securities and the portfolio may also invest in global fixed income securities, and derivatives in global fixed income markets, which may include a small exposure to emerging markets. Exposure to global fixed interest 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

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	2 years
Relative risk rating	Medium
Investment style	Active
Manager style	Single

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

Actual Allocation	%
International Fixed Interest	1.63
Australian Fixed Interest	96.49
Cash	1.88

Sector Allocation	%
Investment Grade Corporate	50.10
Government Agencies/Regionals	25.86
Developed (Non-US) Sovereign Debt	12.36
Agency MBS	7.96
Cash	1.88
ABS (Non-Mortgage)	0.77
High-Yield Corporate	0.62
Other	0.45

Top Holdings	%
AUSTRALIAN GOVERNMENT	12.36
QUEENSLAND TREASURY CORP	6.75
NEW S WALES TREASURY CRP	6.51
TREASURY CORP VICTORIA	3.74
SOUTH AUST GOVT FIN AUTH	2.44
WESTERN AUST TREAS CORP	2.33
FirstMac Mortgage Funding Trus	2.00
BANCO SANTANDER SA	1.89
BANK OF MONTREAL	1.80
TORONTO-DOMINION BANK	1.52

Quality Allocation	%
Agency/Government	25.86
BBB	24.89
A	19.89
Treasury	12.36
AAA	11.48
AA	2.57
Cash	1.88
BB	0.62
Not Rated	0.45
CCC	0.01

Fund Performance

The Fund posted a negative return (before fees) in the September quarter and underperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, posted a negative absolute return and underperformed its benchmark. The smaller inflation-linked component, managed by **Ardea**, also posted a negative absolute return and underperformed its benchmark.

AMP Capital's performance saw a drawdown during the quarter as its US short duration position underperformed relative to long duration positions elsewhere. Inflation-linked bond positioning also detracted from performance, offsetting the contributions from currency positioning and carry.

Inflation-linked bond fund manager **Ardea** underperformed as yield curve arbitrage and bond-swap strategies detracted, given the underperformance of mid-tenor government bonds. The yield curve arbitrage strategy was impacted by the steepening of the yield curve and consequent underperformance of an overweight exposure to longer-dated bonds. The bond-swap strategy was impacted by an overweight position in longer dated bonds and an overweight position in short-dated interest rate swaps within an environment of rising short-dated swap rates and underperformance by government bonds.

Market Review

Domestic yields moved lower for most of the September quarter as a deteriorating COVID-19 situation led to the progressive expansion of ongoing lockdown measures across much of Eastern Australia. The economic impact was particularly evident in high-frequency measures of activity, such as hospitality and entertainment, which sank to depressed levels. The decline in yields was largely reversed in September amid cautious optimism regarding business conditions and the RBA saying that the Delta variant has "delayed, but not derailed, the recovery". With the economy expected "to return to its pre-Delta path by mid-2022", the central bank maintained its view that the "central scenario" for an increase in the cash rate "will not be met before 2024". The Commonwealth Government 10-year bond yield ended the quarter four basis points lower at 1.49% while its 2-year counterpart ended two basis points lower at 0.04%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, rose by 0.31% during the period, in Australian dollar terms.

Outlook

The Reserve Bank of Australia has said they are looking to see sustained wages growth above 3% to give them confidence that an increase in inflation will be sustained and broad based. The central bank forecasts do not show this being achieved within the tenor of the April 2024 yield curve control horizon. However, some have made the point that the lack of foreign migrants could see the labour market tighten more than the central bank has forecast leading to an earlier hiking cycle as their wage growth targets are achieved. This upbeat assessment saw the central bank taper asset purchases following their July meeting, but the lockdowns will see a contraction in third quarter growth, and this has tempered some hawkish early rate hike calls.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1319AU
AMP Flexible Super - Super	AMP1449AU
CustomSuper	AMP0343AU
Flexible Lifetime - Allocated Pension	AMP0590AU
Flexible Lifetime - Investments (Series 1)	AMP1048AU**
Flexible Lifetime - Investments (Series 2)	AMP1388AU**
Flexible Lifetime - Super	AMP0343AU
Flexible Lifetime - Term Pension	AMP0890AU
SignatureSuper	AMP0738AU
SignatureSuper - Allocated Pension	AMP1128AU

**Closed to new and existing investors

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