Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 2021

Actual Allocation	%
International Fixed Interest	62.91
Australian Fixed Interest	36.97
Cash	0.12

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

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Fixed Interest	60
International Fixed Interest	40
Cash	0

Fund Performance

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

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Credit positioning benefited performance, reflecting the contributions from the excess carry earned on credit securities held and credit spread movements. Interest rate management also contributed strongly to performance, as positive performance from yield curve positioning more than offset a slight negative contribution from duration positions. At the sector level, overweight allocations to diversified financials, banks – subordinate and semi-government bonds were the main contributors to performance. There were no material detractors.

AB outperformed its cash benchmark. Performance benefited from allocations to investment-grade and high-yield credits, credit risk transfer securities and European inflation-linked bonds. Currency positioning added to performance, offsetting the slightly negative impact of yield curve positioning.

Schroders outperformed its benchmark. Yield curve positioning was the main contributor to performance, reflecting the contribution from curve flattening positions. These were slightly offset by inflation-linked bond and credit exposures.

PIMCO outperformed its benchmark. Long exposures to emerging markets and the residential mortgage backed securities (RMBS) sector, and an overweight exposure to securitised assets, benefited performance as credit spreads narrowed over the quarter. Security selection within the emerging markets added to performance, with a slight offset from selection within the securitised sector.

Market Review

US government bond yields shifted lower in July amid increasing concerns over the spread of the Delta variant and its potential impact on growth. Yields subsequently reversed course and headed higher, with the US Federal Reserve saying in August that "it could be appropriate to start reducing the pace of asset purchases this year" and making a similar comment in September. The rise in yields was reinforced late in the period as a deepening global energy shortage ahead of the northern winter exacerbated concerns that presently elevated inflation may become more durable than central bankers are anticipating. The US 10-year bond yield ended the quarter two basis points higher at 1.49%. Its Japanese counterpart ended two basis points higher at 0.07% and the German 10-year bond yield rose by one basis point to -0.20%.

Domestic yields moved lower for most of the 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 Reserve Bank of Australia 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%.

Outlook

The global economy is steadily pulling itself out of the COVID-19 recessionary hole in 2021. With widespread distribution of the newly developed vaccines and the end of a difficult Northern hemisphere winter case peak, global economic activity has been accelerating. However, we are seeing large divergences across the globe. While the US and Europe were the initial leaders in vaccination rollouts, much of the rest of the globe is steadily catching up although many countries are still struggling with the Delta variant. The recessionary hit to growth from COVID-19 has further compounded the structural concerns about a global lack of demand within the developed economies and significantly worsened inequality. As vaccination programs allow countries to normalise, it will be important for fiscal and monetary stimulus to continue to support the recovery through lumpy inflation and activity rebounds. The emergence of COVID-19 within an ongoing weak state of fundamentals is likely to set a cap on the repricing of duration, although it is likely there will be a strong cyclical recovery from vaccine distribution and the normalisation of many economies which, alongside unconventional monetary policy stimulus, will drive a strong recovery in risk asset markets but is unlikely to solve many of the long-term structural issues that have plagued global economies.

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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