

AMP Australian Bond

Quarterly Investment Option Update

31 December 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	1.81
Australian Fixed Interest	95.98
Cash	2.21

Sector Allocation	%
Investment Grade Corporate	50.55
Government Agencies/Regionals	22.94
Developed (Non-US) Sovereign Debt	15.21
Agency MBS	7.21
Cash	2.21
ABS (Non-Mortgage)	0.95
High-Yield Corporate	0.51
Other	0.43

Top Holdings	%
AUSTRALIAN GOVERNMENT	15.21
QUEENSLAND TREASURY CORP	6.56
NEW S WALES TREASURY CRP	4.20
TREASURY CORP VICTORIA	3.99
WESTERN AUST TREAS CORP	2.24
Banco Santander SA	1.94
BANK OF MONTREAL	1.84
SOUTH AUST GOVT FIN AUTH	1.73
TORONTO-DOMINION BANK	1.55
UBS AG Australia	1.37

Quality Allocation	%
BBB	24.45
Agency/Government	22.94
A	20.67
Treasury	15.21
AAA	10.96
AA	2.62
Cash	2.21
BB	0.51
Not Rated	0.43
CCC	0.01

Fund Performance

The Fund posted a negative return (before fees) in the December quarter and outperformed the benchmark. Both underlying managers contributed to the Fund's relative returns. The conventional government bond component managed by **AMP Capital**, comfortably outperformed its benchmark; with the inflation-linked component managed by **Ardea**, recording stellar outperformance against its benchmark as well as being strong in absolute terms.

AMP Capital's performance benefitted primarily from its rates and spread exposures through the period, with a significant contribution coming during October from short duration positions in Australia and the US as yields moved higher amid central bankers' concerns regarding rising and persistent inflation. Thereafter, short duration and long-end curve flattening exposures in Australia also aided returns.

Meanwhile, bond-swap strategies were the main source of performance for **Ardea**, particularly during November and again in December, amid strong gains in government bonds during November, while curve positioning helped to insulate the portfolio from the drift higher in some bond yields into year-end.

Market Review

Domestic yields, both short- and long-dated, rose sharply over the December quarter. The move was largely attributable to investors pricing in the November announcement from the RBA that it was discontinuing its target of 0.10% for the April 2024 Commonwealth Government bond. At its December meeting, the Bank retained the cash rate at 0.1% and maintained its commitment to continue buying bonds at the rate of A\$4 billion per week ahead of a review in February. It reiterated dovish forward guidance that meeting the conditions for a rate hike is "likely to take some time", adding that the timing of the first hike will be data dependent, not calendar dependent. The Commonwealth Government 10-year bond yield ended the quarter 18 basis points higher at 1.67% while its 2-year counterpart ended 55 basis points higher at 0.59%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, fell by 1.46% during the period, in Australian dollar terms.

Outlook

The RBA 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 before 2023, but the market has been eager to price in multiple interest rate hikes in 2022. Some have made the point that a 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 abandon yield curve control at the November meeting but remains committed to no more tapering until February 2022. Consumer prices for the third quarter showed higher core inflation than expected, but questions remain as to whether we will see similar improvements in the more laggard wage inflation. It remains unclear how economic data will perform as a vaccination rate in excess of 90% interacts with the reopening of state borders and the rapid spread of Omicron which has followed.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP1048AU**
Flexible Lifetime - Investments (Series 2)	AMP1388AU**
SignatureSuper - Allocated Pension	AMP1734AU*
SignatureSuper Term Pension	AMP1734AU*
SignatureSuper	AMP1734AU*

*Closed to new investors

**Closed to new and existing investors

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