

AMP Capital Corporate Bond

Quarterly Investment Option Update

31 December 2021

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

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium to High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian fixed interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	3.02
Australian Fixed Interest	91.66
Cash	5.32

Sector Allocation	%
Investment Grade Corporate	82.44
Agency MBS	9.68
Cash	5.33
High-Yield Corporate	1.23
ABS (Non-Mortgage)	1.13
Government Agencies/Regionals	0.19

Top Holdings	%
BPCE SA	3.18
National Australia Bank Ltd	3.06
Australia & New Zealand Banking Group Ltd	3.03
Banco Santander SA	3.00
Westpac Banking Corp	2.90
COMMONWEALTH BANK AUST	2.73
BANK OF MONTREAL	2.50
TORONTO-DOMINION BANK	2.11
Sumitomo Mitsui Financial Group	2.06
Suncorp Group Ltd	1.91

Quality Allocation	%
BBB	42.07
A	36.57
AAA	11.73
Cash	5.33
AA	2.88
BB	1.23
Agency/Government	0.19

Fund Performance

The Fund produced a negative return (before fees) in the December quarter, underperforming the benchmark. Performance due to interest rate moves were the primary driver of this result, reflecting sharp moves higher in bond yields as the market reassessed upwards the likelihood of future hikes in the cash rate. These moves led to sharp losses across Australian and global fixed income products in general, with the Fund being one of the better performers on this front. Credit positioning benefited performance, as the contribution from carry more than offset the impact of credit spread movements.

At the sector level, allocations to subordinated banks, diversified financials and consumer discretionary were the top performers. Allocations to securitised product and consumer staples were the only detractors.

At the security level, exposures to ABN AMRO Bank, ING Groep and BPCE were the main contributors. Exposures to AusNet Services Holdings, Westconnex Finance Company and Woolworths Group were the main detractors.

During the quarter, the Fund participated in primary issuance from Optus Finance, Bank of Queensland, Ampol, Computershare and Driver Australia.

Portfolio Positioning

Current positioning has our credit exposures generating a strong level of excess yield, whilst not being overly exposed to any potential future bouts of volatility. More recently, we have been taking profit on exposures that have traded within our expectations of fair value and have added some credit derivative protection against a mild sell-off. Despite this recent action, over the medium term, we continue to anticipate that credit spreads will ultimately tighten modestly, mainly due to the complimentary dynamics of supply versus demand and reach for yield.

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 and commitment to maintain their credit ratings through this cycle.

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 2)	AMP2037AU**
SignatureSuper	AMP1303AU*
SignatureSuper - Allocated Pension	AMP1310AU*

*Closed to new investors

**Closed to new and existing investors

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



What you need to know

This publication has been prepared by AWM Services Pty Limited ABN 15 139 353 496, AFSL No. 366121 (AWM Services). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying investment manager only and not necessarily the views of AMP Limited ABN 49 079 354 519 (AMP Group). No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information.

The investment option referred to in this publication is available through products issued by N.M. Superannuation Proprietary Ltd ABN 31 008 428 322, AFSL 234654 (NM Super), AMP Capital Funds Management Limited ABN 15 159 557 721, AFSL 426455 (AMPCFM) and/or ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac). Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement (PDS) for the relevant product, available from the issuer or your financial planner.

Any advice in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner. In providing any general advice, AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in. The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither NM Super, AMPCFM, ipac, AWM Services, any other company in the AMP Group nor the underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document, unless expressly stated in the PDS. Past performance is not a reliable indicator of future performance. Any slight asset allocation deviations from 100% may be caused by rounding, asset categorisation and/or hedging.