Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 2021

Aim and Strategy

The strategy aims to provide total returns (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 3-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
Global fixed interest	40
Cash	0

Actual Allocation	%
International Fixed Interest	64.30
Australian Fixed Interest	35.07
Cash	0.63

Fund Performance

The Fund posted a negative return (before fees) for the December quarter and slightly underperformed the benchmark. All four of the Fund's underlying managers posted negative absolute returns, with two outperforming their benchmarks.

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Interest rate management benefited performance, reflecting the contributions from duration management and yield curve positioning. Credit positioning added to performance, as the contribution from the excess carry earned on credit securities more than offset the impact of credit spread movements. At the sector level, an overweight duration allocation to semi-government bonds and overweight allocations to banks, subordinate and utilities were the main contributors to performance. An overweight allocation to securitised product was the only detractor.

AB underperformed its cash benchmark. Country/yield-curve positioning detracted due to the manager's duration exposure in Australia. Long duration positioning in the US also detracted as yields rose late in the quarter.

Schroders underperformed its benchmark. Much of this underperformance was produced in October, as the manager has been positioned for Australian bonds to outperform global markets, and for longer-term, rather than shorter-term, inflation.

PIMCO outperformed its benchmark. Towards the end of the quarter, German duration positioning contributed as yields rose, as well as the allocation to, and selection within, the securitised & emerging market (EM) sectors.

Market Review

US government bond yields moved slightly higher over the December quarter although there was substantial volatility during the period, most notably associated with the emergence of the Omicron variant in late November. Central bank deliberations also significantly impacted yields, particularly in December when the US Federal Reserve updated its outlook for monetary policy, with expectations centred on the likelihood of three interest rate increases in 2022 and a further three the following year. The central bank also decided to reduce the monthly pace of its net asset purchases by US$20 billion for Treasury securities and US$10 billion for agency mortgage-backed securities. The US 10-year bond yield ended the quarter two basis points higher at 1.51%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), rose by 0.03% for the period (in Australian dollar terms).

Domestic yields, both short- and long-dated, rose sharply over the period, which 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 global economy is steadily pulling itself out of the COVID-19 recessionary hole in 2021, with widespread distribution of vaccines seeing global economic activity accelerate. However, we are seeing large divergences across the globe. As vaccination programmes 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. In Australia, 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, with their forecasts not show this being achieved before 2023, but the market has been eager to price in multiple interest rate hikes during 2022.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 2)	AMP1991AU**
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Term Pension	AMP1977AU

**Closed to new and existing investors

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