

# Specialist Diversified Fixed Income

## Quarterly Investment Option Update

30 June 2022

### 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 this product, please visit [www.amp.com.au/performance](http://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	%
Global Fixed Interest	63.25
Australian Fixed Interest	35.52
Cash	1.23

## Fund Performance

The Fund posted a negative return (before fees) for the June quarter and was marginally ahead of benchmark. In regard to the Fund's underlying managers, all four posted negative absolute returns, though AB was the best performer given the absolute return focus of the mandate.

Within the Australian bonds sector, Macquarie (who recently took over from AMP Capital) underperformed its benchmark. Credit positioning detracted from performance, as the impact of credit spread movements more than offset the contribution from the excess carry earned on credit securities held. Interest rate management also detracted. At a sector level, overweight allocations to subordinated banks, real estate and diversified financials were the main detractors. AB under-performed its cash benchmark however outperformed the composite index of the fund and produced the best absolute return of our underlying managers. Currency positioning contributed, largely through overweights to the US dollar, Brazilian real, Indonesian rupiah, Singapore dollar and offshore Chinese renminbi.

Schroders underperformed its benchmark, despite maintaining a defensive strategy of limiting relative interest rate risk, positioning for continued flattening of yield curves and hedging corporate allocations with credit derivative overlays. A small overweight to Australian duration was the main culprit for the underperformance. Going forward, the manager is more confident the repricing of interest rates is nearing an end and has begun rebuilding modest long duration exposure. PIMCO also underperformed its benchmark. Towards the end of the quarter, selection within financials detracted, as did positioning to developed market duration, as yields rose.

## Market Review

Global government bond yields moved higher across the yield curve in the June quarter, as inflation data continued to surprise on the upside. In turn, central banks around the world continued their focus on driving inflation rates lower, which currently sit at multi-decade highs, by raising interest rates or, in the case of the European Central Bank (ECB), hinting at impending rises. The attention afforded to inflation, initially stemming from demand and supply imbalances brought about by the pandemic, and since then, exacerbated by the Russian invasion of Ukraine, has market participants now expecting that tighter financial conditions (in the form of higher interest rates) may lead to a recession in the coming years. The strength of the US consumer (retail spend and employment prospects), ironically, suggests the Fed will need to move interest rates higher and sooner to dampen demand. The European and UK markets face a different situation as they juggle the need to bring down inflation amidst a lower economic growth projection and the higher impact of supply side-driven energy shocks. The rise in rates across many markets led to negative returns across most fixed income sectors over the period and H1 2022. Global bonds, as measured by the Bloomberg Global Aggregate Index (\$A hedged), returned -4.57% for the period, in Australian dollar terms.

The Australian yield curve continued its march upwards over the June quarter. Domestic inflation data continued to dominate economic news flow, with price rises not seen since the start of the century. While the market is not expecting the inflation level to peak before the end of 2022, the Reserve Bank of Australia (RBA) pressed on with the normalisation of accommodative monetary policy by raising the official cash rate from 0.10% to 1.35% over three successive meetings starting from May. As is the case in the US, Australia's economy appears quite solid with record unemployment levels sitting at 3.90%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -3.81% during the period, in Australian dollar terms.

## Outlook

The global economy has mostly recovered from the COVID-19 downturn, however ongoing supply chain disruptions, exacerbated by geopolitical tensions, have meant that inflation has proved far more persistent than anticipated. Previously robust economic activity levels following the COVID-19 shutdown have started to fade and the focus of central banks and markets remains firmly on reining in inflation. Central banks trying to catch up to lower the impact of stubbornly high inflation prints, thus increasing recessionary risk, is a key concern of markets at present.

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## 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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