



Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 2023

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 0+ Yr Index / 40% - Bloomberg 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

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Standard Risk Measure	4/Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Cash	0
Australian fixed interest	60
Global fixed interest	40

Actual Allocation	%
Fixed Income	100.45
Cash	-0.45

Region Allocation	%
Australasia	100.45
Cash	-0.45

Fund Performance

The Fund posted a strong positive return for the quarter, outperforming the benchmark (before fees). Our underlying managers' all outperformed their benchmark.

Within the Australian bonds sector, Macquarie delivered a strong return and outperformed its benchmark. Most of the outperformance was generated mid-quarter, driven by duration & curve positioning.

Schroders also produced a strong return comfortably outperforming its benchmark. Most of the outperformance was generated towards the end of the quarter, due to the manager's long duration position and overweight allocation to credit spreads, primarily in Australia.

Finally, within the global bonds sector, JP Morgan was added as a manager for the Fund's global bond exposure, replacing PIMCO in December given our very high conviction in JP Morgan's global bond process. The manager outperformed the benchmark notably thanks to long duration positioning and sector rotation; including through an overweight to investment grade names. Bottom-up security selection also was a positive contributor.

Market Review

The December quarter was characterised by two distinct phases within global bond markets. In October, bonds were facing the prospect of another year of negative returns as strong economic momentum continued, leading to further, but more measured hawkish sentiment from developed central banks. This environment pushed bond prices lower and yields higher. However, encouraged by progress being made to bring inflation closer to target levels, the US Federal Reserve made a dovish pivot in November, leading to a sustained rally for the remainder of the quarter in fixed income markets.

In line with the rally in most risk assets, corporate bond spreads tightened by 21bps, with much of the movement occurring in November and December, bringing them back to levels not seen since the early stages of the Fed tightening cycle in 2022. Corporate balance sheets remained relatively strong, despite continued concerns about further increases in default rates and downgrades. Global bonds, as measured by the Bloomberg Global Aggregate Index (\$A hedged), returned 5.4% in Australian dollar terms. Global investment grade and high yield credit meanwhile returned 6.9%% and 7.1% respectively, as measured by the Bloomberg Global Aggregate Corporate Index (\$A hedged) and Bloomberg Global High Yield Index (\$A hedged).

Australian bond yields mirrored movements of global peers over the December quarter, however lagged in terms of performance. Australia was unable to fully participate in the global bond rally, with stubbornly high local inflation compelling the RBA to lift the cash rate in November 2023. Despite the rate hike during the period, given the correlation of Australian yields to US yields, the Australian 10-year yield fell 0.53%, to end at 3.96%, while the 2-year yield fell 0.37%, to end at 3.71%.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned 3.79% over the period, while the AusBond Credit index returned 3.18% in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, delivered a return of 5.79% over the same timeframe, given real yields fell over the period.

Outlook

Global bond markets are likely to continue to focus on predicted paths for US interest rates. Large drawdowns in recent years, resulting in bonds available at significantly cheaper prices, lead us to believe returns going forward will likely be reasonable; perhaps around running yield or a little more, as inflation slows, and central banks cut rates. Furthermore, bonds may serve as a diversifier to growth assets in the event of further economic slowdown.

Like their global counterparts, Australian bond valuations have improved significantly and have moved closer to fair valuation levels as yields have risen. We therefore believe forward-looking returns are now significantly more compelling than in recent history.

Availability

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

*Closed to new investors

**Closed to new and existing investors

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