

AMP Australian Bond

Quarterly Investment Option Update

30 June 2016

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the UBS Composite Bond (All Maturities) Index on a rolling 12 month basis. The portfolio invests primarily in Australian government bonds and credit securities and may also invest in global fixed income securities, and derivatives in global fixed income markets, which may also 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 please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0343AU
AMP Flexible Super - Retirement account	AMP1319AU
AMP Flexible Super - Super account	AMP1449AU
AMP Growth Bond	AMP1188AU
CUSTOM SUPER	AMP0343AU
Flexible Lifetime - Allocated Pension	AMP0590AU
Flexible Lifetime - Term Pension	AMP0890AU
Flexible Lifetime Investment	AMP1048AU
Flexible Lifetime Investment (Series 2)	AMP1388AU
Investment Linked Deferred Annuity	AMP0753AU
Investment Linked Single Premium	AMP0088AU
Investment Linked Single Premium	AMP0130AU
METCASH SUPERANNUATION PLAN	AMP0343AU
MultiFund Flexible Income Plan	AMP0356AU
Signature Super	AMP0738AU
Signature Super Allocated Pension	AMP1128AU

Investment Option Overview

Investment category	Fixed Interest - Enhanced Fixed Interest
Suggested investment timeframe	2 years
Relative risk rating	Low - Medium
Investment style	Active

Asset Allocation	Benchmark	Range (%)
Fixed interest securities and cash	100	0-100

Top 10 Securities	%
AUSTRALIAN GOVERNMENT	17.04
QUEENSLAND TREASURY CORP	11.21
NEW S WALES TREASURY CRP	4.34
WESTERN AUST TREAS CORP	4.03
INTL BK RECON & DEVELOP	3.85
TREASURY CORP VICTORIA	3.51
Westpac Banking Corp	3.49
Australia & New Zealand Banking Group Ltd	3.00
ASIAN DEVELOPMENT BANK	2.10
INTL FINANCE CORP	1.90

Credit Exposure	%
Agency/Government	35.64
Treasury	17.04
BBB	15.95
A	11.74
AAA	8.03
AA	5.57
Cash	3.79
Sub Investment Grade	2.53
Not Rated	-0.29

Portfolio Summary

- > Australian bond yields fell further in the June quarter.
- > The Fund posted a positive return and narrowly outperformed its benchmark for the quarter.
- > The Reserve Bank of Australia reduced rates by 0.25% to 1.75% in May and maintains a moderate easing bias.

Investment Option Commentary

The Fund posted a positive return and narrowly outperformed its benchmark for the quarter. The largest component of the portfolio – held in conventional government bonds and managed by AMP Capital – outperformed while the smaller inflation-linked component managed by Ardea underperformed.

AMP Capital's outperformance was driven by interest rate strategies and currency strategies. Within currencies the portfolio was predominantly long in the US dollar over much of the quarter, against a basket of short positions in the Australian dollar, British pound, Canadian dollar and Asian currencies. The main detractor from relative returns was the Fund's duration positioning where the portfolio was predominantly short over much of the quarter in US, which was offset through long positions in Australia, Canada and Asia.

Inflation-linked bond fund manager Ardea posted a positive return for the quarter but underperformed its benchmark. The portfolio was positioned to protect investors against the effects of rising inflation using inflation-linked bonds (ILBs). This overweight position in ILBs was the main detractor from performance during the quarter as inflation expectations declined first with the weak Australian Consumer Price Index reading for the March quarter and then following the outcome of the UK's 'Brexit' referendum. The overweight to ILBs has been reduced in recent months, which has helped overall performance.

Market commentary

Australian bond yields fell further in the June quarter, with three-year and ten-year government bond yields closing respectively at 1.55% and 2.00%. The long-term trend for Australian bonds remains downward, given continued concerns over domestic (and global) growth prospects along with the Reserve Bank of Australia's moderate easing bias, demonstrated in May when they lowered the official interest rate to 1.75%. The Reserve Bank of Australia appears to now be holding fire on a further reduction until newer inflation figures are released.

Outlook

Australian yields continue to trade at a premium to those available in Japan and Europe, making Australian sovereign fixed income and corporate credit relatively attractive from an international perspective and in a search for yield environment. The Reserve Bank of Australia's comments in regards to having further scope to ease have been missing from recent releases, suggesting additional interest rate reductions are now less likely, at least in the short term, although we still expect further cuts later this year.

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