AMP Capital Corporate Bond Fund

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

Aim and strategy: To provide a total return (capital growth and income) after costs and before tax, above the UBS Credit Index 0+, on a rolling 3 year basis. he portfolio aims to provide investors with regular monthly distributions through investment in an actively managed portfolio of credit securities such as corporate bonds. The portfolio focuses 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. Investments may also include:

• Asset backed securities and derivatives, preference shares, convertible bonds, hybrid securities and loans in the Australian market.
• Global credit securities and derivatives in global credit markets, which may also include a small exposure to emerging markets.
• Non-investment grade rated securities up to a maximum of 10% of the portfolio's investments.
• Cash and cash-like securities such as bank bills.
• Government, semi-government, government guaranteed or similar securities.
• Other financial products, such as securities and managed strategy's offered by AMP Capital or their associates.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1289AU
AMP Flexible Super - Retirement account	AMP1322AU
AMP Flexible Super - Super account	AMP1452AU
CUSTOM SUPER	AMP1289AU
Flexible Lifetime - Allocated Pension	AMP1296AU
Flexible Lifetime Investment (Series 2)	AMP2037AU
METCASH SUPERANNUATION PLAN	AMP1289AU
Signature Super	AMP1303AU
Signature Super Allocated Pension	AMP1310AU

Investment Option Overview

Investment category	Fixed Interest - Credit and Fixed Interest Trading Strategies
Suggested investment timeframe	3+ years
Relative risk rating	Medium
Investment style	Active

Asset Allocation	Benchmark	Range (%)
Australian Bonds	100	90-100
Cash	0	0-10

Top Ten Securities Exposure	%
Westpac Banking Corp	3.60
National Australia Bank Ltd	3.53
CREDIT SUISSE (SYDNEY BRANCH) AG	2.24
COMMONWEALTH BANK AUST	2.23
APT PIPELINES LTD	2.13
DOWNER GROUP FINANCE PTY	1.89
BRISBANE AIRPORT CORP LT	1.74
Telstra Corp Ltd	1.73
Morgan Stanley	1.63
STOCKLAND TRUST	1.57

Credit Ratings Exposure	%
BBB	35.99
A	34.25
AA	13.33
AAA	7.66
BB	4.31
Cash	2.89

Credit Ratings Exposure	%
Treasury	0.73
CCC	0.57
Agency/Government	0.26
Not Rated	0.01

Portfolio Summary

> The Corporate Bond Fund delivered a total return of 0.88% (after fees) in the December quarter, outperforming the benchmark by 46 basis points.

> Continued good performance from the Fund's credit exposures drove most of the Fund's outperformance.

> The Fund has incrementally added to its credit exposure in recent months primarily through a reduction in credit derivative protection, whilst steadily reducing its interest rate sensitivity.

Investment Option Commentary

The Corporate Bond Fund delivered a total return of 0.88% (after fees) in the December quarter, outperforming the benchmark by 46 basis points.

Performance over the quarter was generated primarily from credit positioning, with the Fund benefiting from credit spreads tightening and continuing to earn credit risk premia in a positive market environment. Interest rate management contributed marginally to performance, reflecting the positive impact of duration positioning, with some offset from curve positioning.

At the sector level, allocations to industrials, real estate and diversified financials were the main contributors to credit-related performance. There were no material detractors.

At the security level, exposures to ABN Amro, Downer Group Finance and Westpac Banking Corporation were the main contributors to performance. There were no material detractors.

The Fund's duration exposure is primarily in the front end of the Australian curve, where we see better valuations. This has been coupled with a curve steepening bias to reflect our bias for higher yields in the back end of the curve.

Within credit, the Fund has modestly increased its sensitivity to credit spreads through selective investment in recent primary issuance, and through the reduction of the Fund's credit derivative protection exposures.

During the quarter, the Fund participated in primary issuance from Ausgrid Finance, Westpac Banking Corporation HSBC, Bank of Queensland, National Australia Bank, Vodafone Group and the University of Wollongong, and a new securitised issue from Latitude Australia. The Fund also increased exposure to banks and consumer discretionary, and reduced exposure to industrials.

The Fund remains well-diversified across sectors. Key exposures within Financials are to senior-ranked bonds, with larger weights to Westpac and National Australia Bank domestically, and to Credit Suisse and Sumitomo Mitsui amongst the foreign banks. Across Corporates, the key sector exposures are to Utilities (with the larger exposures being Australian Gas Networks and AGL Energy), Real Estate (Stockland, Scentre Group (Westfield)) and Industrials (Downer, Brisbane Airport).

Market commentary

Domestically, credit spreads tightened over the quarter, as substantial issuance activity was counterbalanced by the significant amount of corporate securities nearing maturity. An absence of any major adverse credit events was further supportive of market sentiment. This was generally supported by stronger equity and commodity markets, where resurgent crude oil and rising iron ore prices featured prominently.

Outlook

Global central bank policy in the US and Europe has begun to show increasing hawkishness. Investor caution has increased in cash credit markets, which were previously typified as low volatility trading environments. There is also an important acknowledgement of liquidity and underlying positioning that may impact market pricing as we move into a more transitionary phase for global central banks. Meanwhile, US economic activity remains solid, whilst Eurozone data continues to display fairly strong cyclical momentum. Geopolitical risks, not just through US political uncertainty, but from North Korea and tensions in the East and South China Seas remain a significant tail risk for markets.

We remain cautious on adding risk, given higher valuations. However, we note continuing underlying policy support and other broadly strengthening macroeconomic data trends counterbalance this somewhat. We have been moving the Fund more defensively positioned within its credit allocation over recent months as a result of this. Ultimately we feel any such periods of volatility may prove to be opportunities to add risk given the broader backdrop, and will be carefully balancing our signals from our investment process on fundamentals, sentiment and valuations as we move through these environments.

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