

# Australian Fixed Interest\*

Quarterly Investment Option Update

31-December-2017

\*This option is named "Super Easy Australian Fixed Interest" under the AMP Flexible Super product line

## Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1333AU*
AMP Flexible Super – Choice (Super)	AMP1505AU*
CustomSuper	AMP1286AU
Flexible Lifetime – Allocated Pension	AMP1293AU
Flexible Lifetime – Super	AMP1286AU
Signature Super	AMP1300AU
Signature Super – Allocated Pension	AMP1307AU

## Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit [www.amp.com.au](http://www.amp.com.au). You can also view the last investment performance specific to you by visiting your My Portfolio account.

## Contact Us

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 133 267 (Mon. to Fri. 8:00am to 8:00pm AEST)

## Overview

**Aim & Strategy:** To provide returns over the long term in line with an appropriate index by investing in Australian Fixed Interest. Exposure to this asset class will be attained through the use of index focused investment managers. The strategy aims to provide returns that track the UBS Composite Bond Index with net dividends reinvested. Currently managed by UBS Asset Management.

**Investment category:** Fixed Interest – Core Fixed Interest

**Suggested Investment Timeframe:** 3 years

**Relative Risk Rating:** Low

**Investment Style:** Index style

Rating Allocation	Fund (%)	Benchmark (%)
Aaa	72.93	73.95
Aa	19.86	19.19
A	4.93	4.77
Baa	1.99	2.09
Below Baa	-	-
NR	0.29	-

Maturity Distribution	Fund %
0-1yr	5.59
1-3yrs	23.80
3-5yrs	20.38
5-7yrs	14.25
7-10yrs	21.86
>10yrs	14.12

Sector Exposure	Fund %
Treasury / Sovereign / Govt Inflation Link	49.29
Semi Govt	23.91
Government Related	16.27
Corporate	9.64
Asset Backed	0.60
Other	0.29

Top Ten Securities	Maturity	ISIN	Weight
AUSTRALIA 4.25000%	21.04.26	AU000XCLWAI8	3.75%
AUSTRALIA 5.75000%	15.05.21	AU0000XCLWM5	3.58%
AUSTRALIA 4.75000%	21.04.27	AU3TB0000135	3.49%
AUSTRALIA 4.50000%	15.04.20	AU3TB0000036	2.98%
AUSTRALIA 5.75000%	15.07.22	AU3TB0000051	2.98%
AUSTRALIA-REG-S 3.25000%	21.04.25	AU3TB0000168	2.90%
AUSTRALIA 5.50000%	21.04.23	AU3TB0000101	2.82%
AUSTRALIA-REG-S 2.75000%	21.11.27	AU000XCLWAQ1	2.79%
AUSTRALIA 2.75000%	21.04.24	AU3TB0000143	2.52%
AUSTRALIA 1.75000%	21.11.20	AU000XCLWAN8	2.49%

## Market Commentary

Returns were positive for Australian bond markets over the quarter and most fixed income sectors performed better compared to the previous quarter. The AusBond Composite 0+Yr Index returned 1.44% over the quarter.

The inflation index was one of the strongest performers returning 2.60%. The treasury index followed at 1.59% return, credit index at 1.49%, the semi-government index at 1.29% and then the supranational index at 1.10%. Stronger energy prices and commodity prices combined with more hawkish central banks and generally stronger global economic data to drive further declines in the BoA-Merrill Lynch Australian Corporate Index spread over treasuries, which in net terms fell by 12bps to 92bps over the quarterly period.

US government bond yields trended higher over the quarter, driven by reduced geo-political risks, progress on US tax reform and further monetary policy tightening by the US Fed. Australian 10 year bond yields declined during the first two months of the quarter to trough in late November, but were partially offset by a rise in yields in December on the back of stronger Australian data releases and in correlation to rising US yields.

Australian 10-year and 3-year government bond yields decreased by 21bps and 2bps respectively over the quarter, contributing to a bull flattening in the Australian yield curve. US 3-year government bond yields rose by 35bps and 10-year government bond yields increased by 7bps over the quarter, resulting in a bear flattening in the US yield curve. The spread between Australian and US 10-year government bonds contracted over the quarter, closing 28bps narrower to 22bps at quarter-end.

## Outlook

Global cyclical conditions continue to materially improve and inflationary conditions are gradually lifting as transitory influences recede. Monetary policy settings remain broadly accommodative but there is an important policy transition underway for global central banks.

In Australia, the RBA remains on hold and has communicated that the recent lift in rates by some central banks does not 'mechanically' flow through to Australian interest rates. Core inflationary measures persist below the RBA's target and wages growth remains weak. Employment conditions have shown positive progress but the high levels of household debt are an added 'complication' for the RBA.

In the US, the nomination of Jerome Powell as Chair of the Federal Reserve should maintain continuity in the current policy stance. The filling of remaining vacancies may, however, shape the style and approach of the Fed and give rise to potential policy uncertainty. There remains a divergence between market pricing of the likely path of rates and the Fed's 'dot plot', despite growth momentum being maintained, employment conditions continuing to improve and core inflationary measures stabilising. Tax reform offers promise and helps underpin growth expectations. We expect further tightening of US monetary policy, with two rate hikes likely over 2018.

Central banks in the UK and Canada are cautiously shifting rhetoric, looking to remove the 'emergency' policy settings that have been in place to support growth conditions. Recent guidance is towards a very gradual and carefully considered path to remove policy accommodation.

The evolution of China's economy is a key thematic as China's policymakers continue to navigate the deleveraging cycle and look to rebalance growth towards consumption in order to reduce downside risks.

Credit markets continue to attract investors given the benefits of carry and ongoing support to business conditions from accommodative central bank policy settings. Recent US tax reform measures also offer support for corporate credit.

## What you need to know

---

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.