

# AMP Australian Bond

## Quarterly Investment Option Update

30 June 2018

### 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](http://www.amp.com.au)

### Availability

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

### Investment Option Overview

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

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

Top 10 Securities	%
AUSTRALIAN GOVERNMENT	21.66
QUEENSLAND TREASURY CORP	9.11
NEW S WALES TREASURY CRP	4.11
WESTERN AUST TREAS CORP	4.03
INTL BK RECON & DEVELOP	2.93
INTER-AMERICAN DEVEL BK	2.71
Australia & New Zealand Banking Group Ltd	2.30
Westpac Banking Corp	2.24
ASIAN DEVELOPMENT BANK	1.70
National Australia Bank Ltd	1.66

Credit Exposure	%
Agency/Government	30.03
Treasury	21.66
A	17.22
BBB	15.09
AAA	7.33
AA	6.20
BB	1.37
Cash	1.20
CCC	0.16
Not Rated	-0.26

## Portfolio Summary

- > Australian bond yields mirrored volatility in overseas markets during the June quarter.
- > The Fund posted a positive return and comfortably outperformed its benchmark.
- > Australian sovereign fixed income and corporate credits remain relatively attractive from an international perspective.

## Investment Option Commentary

The Fund posted a positive return and comfortably outperformed its benchmark over the June quarter. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, and the smaller inflation-linked component, managed by **Ardea**, outperformed their respective benchmarks.

**AMP Capital's** interest rates positioning was the main contributor to performance over the quarter, with both duration positioning and yield curve positioning adding to returns. The portfolio's bias to be long duration in shorter-term maturities performed well, particularly in Australia, Canada, and Korea. The duration positioning and bias for front-end steepener positions in the US also added significantly to performance.

Inflation-linked bond fund manager **Ardea** performed strongly over the quarter, posting a positive return and outperforming its benchmark. Performance was driven by the portfolio's interest rate derivatives strategy via options that benefitted from the volatility in markets over the quarter.

## Market commentary

Global government bonds yields moved higher in April, as markets regained their appetite for risk amid further evidence of strengthening economic conditions. In May, fears of a populist anti-European government coming to power in Italy prompted a sell-off in the debt of peripheral European nations and a flight to the quality of higher rated issuers. The US was one of the recipients of the shift in investment flows. After trending upwards early in June, amid an easing of political uncertainty in Italy and optimistic economic commentary from central bankers in Europe and the US, yields subsequently reversed this momentum to fall amid escalating trade tensions. The US 10-year bond yield ended the quarter at 2.86%, while the German 10-year bond yield and the Japanese 10-year bond yield ended at 0.30% and 0.04% respectively.

## 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 and yield perspective. The Reserve Bank of Australia has a short-term neutral policy in regards to the timing and direction of interest rate changes. However, conflicting economic pressures and a low inflationary environment mean it is too early to be considering interest rate hikes. Housing market and household debt levels continue to be an area for concern.

## Contact Us

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