

Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To provide a total return (interest income and capital growth) after costs and before taxes, above the performance benchmark (60% – Bloomberg AusBond Composite Bond All Maturities Index / 40% – Barclays Global Aggregate Bond Index (hedged to Australian dollars)), on a rolling three-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 please visit www.amp.com.au

Investment Option Overview

Investment category	Global fixed interest
Suggested investment timeframe	3 years
Relative risk rating	Low-Medium
Investment style	Multi-Manager

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

Actual Allocation	%
Global fixed interest	61.60
Australian fixed interest	36.27
Cash	2.12

Portfolio Summary

- > The Fund posted a positive return (before fees) during the September quarter, outperforming the benchmark
- > Three of the four underlying managers outperformed their respective benchmarks, while the fourth performed in line with its benchmark.
- > Very low, though rising sovereign bond yields continue to point to low medium-term returns.

Fund Performance

The Fund posted a positive return (before fees) during the September quarter, outperforming the benchmark. Three of the four underlying managers outperformed their respective benchmarks, while Schroders performed in line with its benchmark.

Within the Australian bonds sector, AMP Capital produced a positive return and outperformed its benchmark. Performance benefited from credit positioning, driven by the excess carry earned on credit securities held. Interest rate management detracted, primarily due to duration management. At the sector level, exposures to diversified financials and banks (including subordinated bank debt) were the main contributors to performance. An exposure to Supranationals was the only detractor.

AB performed strongly during the quarter, outperforming its cash benchmark. Sector and security selection was the primary driver of returns, particularly early in the quarter. Contributions came from exposure to eurozone investment-grade and high-yield corporates, US investment-grade corporates, and US emerging-market sovereigns and corporate bonds. Treasury exposure also contributed in the latter part of the quarter.

Schroders performed in line with its benchmark. Given the shifting environment to higher bond yields and increased volatility, the manager is positioned with cautious exposures to interest rates and credit risk relative to the benchmark.

PIMCO produced a positive return and outperformed its benchmark over the quarter. Interest rate management was the primary contributor to returns, with positive positioning including an underweight to the longer-dated segment of the Japanese yield curve as yields moved higher. Sector and security selection also added value, with long exposure to high yield corporates (in particular financials) and security selection of securitised assets (in particular US non-agency mortgage-backed securities) contributing.

Outlook

Very low, though rising, sovereign bond yields point to low medium-term returns. The abatement of deflationary pressures, the gradual reduction in spare capacity and a shift in policy focus from monetary to fiscal stimulus, primarily in the US, indicate yields are likely to steadily trend higher. Emerging market economies continue to see some outflows.

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.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1959AU
AMP Flexible Super - Retirement account	AMP1966AU
AMP Flexible Super - Super account	AMP1973AU
CustomSuper	AMP1959AU
Flexible Lifetime - Allocated Pension	AMP1952AU
Flexible Lifetime - Investments (Series 2)	AMP1991AU
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Select	AMP1975AU

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