

AMP Australian Bond

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide a total return (income and capital growth) above the Bloomberg AusBond Composite 0+ Yr Index on a rolling 12-month basis. The portfolio invests primarily in Australian government bonds and credit securities and the portfolio may also invest in global fixed income securities, and derivatives in global fixed income markets, which may 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

Investment Option Overview

Investment category	Australian fixed interest
Suggested investment timeframe	2 years
Relative risk rating	Low - Medium
Investment style	Active

Asset Allocation	Benchmark (%)
Australian fixed interest	100
Cash	0

Top Holdings	(%)
AUSTRALIAN GOVERNMENT	16.81
QUEENSLAND TREASURY CORP	10.71
NEW S WALES TREASURY CRP	5.00
WESTERN AUST TREA CORP	4.49
INTER-AMERICAN DEVEL BK	2.84
AUSTRALIA & NEW ZEALAND BANKING	2.26
WESTPAC BANKING CORP	2.22
SOUTH AUST GOVT FIN AUTH	2.18
NATIONAL AUSTRALIA BANK LTD	1.61
SUNCORP-METWAY LTD	1.56

Quality Allocation	%
Agency/Government	31.48
Treasury	16.81
A	17.72
BBB	16.90
AAA	8.62
AA	6.07
BB	1.29
Cash	1.10
CCC	0.17
Not Rated	-0.16

Portfolio Summary

- Australian sovereign bond yields were mixed during November, diverging from offshore bond yields which fell.
- The Fund posted a negative return (before fees) during November and underperformed its benchmark, with both managers lagging their respective benchmarks.
- We expect the Reserve Bank of Australia to remain on hold for a prolonged period.

Fund Performance

The Fund posted a positive return (before fees) in the December quarter, but underperformed the benchmark. While each underlying manager generated positive performance, the largest component of the portfolio, held in conventional government bonds and managed by AMP Capital, underperformed its benchmark, with the smaller inflation-linked component, managed by Ardea, also underperforming its respective benchmark.

AMP Capital's interest rate strategies overall were the main driver of underperformance, with the majority due to the aggressive repricing of the future path of US Federal Reserve rate hikes later in the quarter which saw a sharp change in the Eurodollar curve. In addition, a short duration bias in the UK and Europe underperformed, with yields continuing to fall amid ongoing uncertainty around Brexit negotiations. The steepening bias in Asia, mostly in Korea, also detracted as global yield curves continued to flatten, with the short-dated segment of the Korean yield curve inverting during the period.

Inflation-linked bond fund manager Ardea's relative performance was hampered in the 'risk-off' environment by positioning in physical and derivatives-based inflation linked bonds. Specifically, a breakeven curve steepening position detracted, as the difference between short-dated and long-dated inflation expectations narrowed. In addition, an inflation derivatives position, held to replace the underweight exposure to physical inflation-linked bonds, did not provide the usual hedge as normal relationships in inflation linked markets broke down.

Market Commentary

Government bond yields in Australia largely mirrored their overseas counterparts to fall significantly during the December quarter, as financial markets experienced increased volatility amid predominant 'risk-off' sentiment. Earlier in the quarter, domestic bond yields showed some divergence from offshore bond movements, in particular the US, with the local market receiving support from strong local economic data on balance. However, in line with offshore moves domestic bonds rallied strongly during December, with market pessimism being further impacted by softer local economic data which included a weak gross domestic product reading for the September quarter and mixed labour market measures, while the continued fall in house prices also weighed on the domestic market. The Commonwealth Government 2-year bond yield ended the quarter at 1.90%, while the Commonwealth Government 10-year bond yield ended at 2.32%.

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 stated short-term neutral policy in regards to the timing and direction of interest rate changes. However, a weak economic backdrop is more likely to result in a rate decrease in the short term. Housing market and household debt levels continue to be an area for concern, although currently there is little evidence of significant non-performing loans.

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
CustomSuper	AMP0343AU
Flexible Lifetime - Allocated Pension	AMP0590AU
Flexible Lifetime - Term Pension	AMP0890AU
Flexible Lifetime - Investments (Series 1)	AMP1048AU
Flexible Lifetime - Investments (Series 2)	AMP1388AU
SignatureSuper	AMP0738AU
SignatureSuper - Allocated Pension	AMP1128AU

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