AMP International Bond

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To provide total returns (income and capital growth) after costs and before tax, above the performance benchmark on a rolling 3-year basis. The benchmark is the Bloomberg Barclays Capital Global Aggregate Index in AUD (AUD Hedged). The portfolio provides investors with access to a diversified portfolio of short and long-term global fixed income securities. Generally, this portfolio is hedged to Australian dollars.

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	2 - 3 years
Relative risk rating	Medium
Investment style	Active

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

Actual Allocation	%
Global fixed interest	99.74
Cash	0.26

Investment Option Commentary

The Fund posted a positive return (before fees) in the December quarter, but underperformed the benchmark. Five of the six underlying managers generated positive returns during the period, with two managers outperforming their respective benchmarks.

The largest segment of the Fund – global government bonds – recorded the strongest performance. Within the segment, the AMP Capital portfolio recorded a positive return but underperformed its benchmark. 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. The portfolio's long position in the short-dated segment of the Australian curve contributed to relative returns, as did a yield curve position in Italian bonds.

Also within the global government bond segment, Kapstream posted the strongest absolute return and outperformed whereas Colchester underperformed their benchmark. Key contributors to Kapstream's performance included a strategic active long position in the UK and a net long position in Poland. Colchester's bond selection detracted from relative returns. Underweight positions in US and UK bonds and an overweight position in Mexican bonds had the largest negative impact. Currency strategies were positive for performance, with long positions in the Japanese yen and Malaysian ringgit and a short position in the euro the main contributors.

Within global credit, Morgan Stanley posted a negative absolute return and underperformed whilst BlackRock outperformed their benchmark in a period where global credit markets lagged other fixed income market segments, with spreads continuing to widen. Within Morgan Stanley's portfolio, investment grade credit positioning had a negative impact on performance driven mainly by positioning in Financials, specifically the portfolio's overweight to the banking and insurance sectors. Performance was also negatively impacted by the allocation to high yield bonds. The portfolio's positioning to industrials added value mainly via the capital goods sector. Blackrock's asset allocation strategies detracted as did credit security selection, whilst the duration strategy was the main contributor over the period.

The smallest segment of the Fund – the global securitised segment managed by Wellington – recorded a positive absolute return and underperformed its benchmark. Duration and yield curve positioning had a negative impact on performance, with a short duration bias a significant detractor in the latter part of the period. Sector allocation also hampered returns, primarily due to an allocation to non-agency residential mortgage-backed securities (RMBS), in particular credit risk transfer securities (which are also known as Fannie Mae and Freddie Mac securities) and FNMA Delegated Underwriting and Servicing (DUS) bonds, which suffered amid heightened market volatility during the period.

Market Commentary

Global government bond yields experienced heightened volatility during the December quarter, reversing their previous upward trend to fall significantly overall. Bonds rallied during the period amid a prevailing 'risk-off' tone, as a US-led correction in equity markets which commenced early in the quarter gathered pace. Both economic and geopolitical factors contributed to a flight to 'safe haven' assets, with market sentiment buffeted by concerns around slowing economic growth and the likely path of monetary tightening by the US Federal Reserve, with geopolitical influences including ongoing US-China trade tensions and Brexit uncertainty coupled with political instability in the UK. Bond markets also reacted negatively to the US Federal Reserve's rate increase late in the quarter, with sentiment reflecting fear that the tightening may dampen growth. Likewise, the 'risk-off' tone permeated global credit markets for the majority of the quarter, with spreads continuing their widening trend.

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 experience some outflows.

Availability

Product name	APIR
CustomSuper	AMP0344AU*
Flexible Lifetime - Allocated Pension	AMP0610AU*
Flexible Lifetime - Term Pension	AMP0900AU*
AMP Flexible Lifetime Super	AMP0344AU*

* Closed to new investors

Contact Details

Web: **www.amp.com.au**
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)

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