Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 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	62.37
Australian fixed interest	37.55
Cash	0.07

Portfolio Summary

- The Fund posted a positive return (before fees) during the December quarter, but underperformed the benchmark
- All of the four underlying managers produced positive results although they underperformed their respective benchmarks.
- In a general 'risk-off' environment, global and domestic government bond yields fell while credit spreads continued to widen during the period.

Investment Option Commentary

The Fund posted a positive return (before fees) during the December quarter, but underperformed the benchmark. All of the four underlying managers produced positive absolute returns although they underperformed their respective benchmarks during the period.

Within the Australian bonds sector, AMP Capital's performance benefited from interest rate management, with duration management contributing. Credit positioning was negative overall, as the excess carry earned on credit securities held was more than offset by the negative impact from credit spread movements. At the sector level, the underweight exposure to supranationals was the main contributor to performance, whilst overweight exposures to diversified financials and technology were the main detractors.

AB underperformed its cash benchmark during the period. Sector and security selection were the primary detractors from returns, as exposure to investment grade and high yield bonds in the eurozone and the US had a negative impact. Contributions came from country and yield curve positioning in the US, Canada and Australia, with AB's currency strategy also lending some support to returns.

Schroders underperformed its benchmark, with an exposure to inflation-linked bonds the major detractor as a falling oil price and lower risk appetite impacted on these exposures. Conversely, the portfolio's hedges in global credit and in particular US high yield contributed to returns as spreads widened sharply.

PIMCO underperformed its benchmark over the quarter. Interest rate management was the primary detractor from returns to returns, with an underweight to the longer-dated segment of the Japanese yield curve weighing on returns in the latter part of the quarter as yields fell amid a rally in safe haven assets as volatility increased. Security selection within securitised assets (in particular US non-agency mortgage-backed securities) also detracted, whilst sector allocation also had a negative impact overall, as overweight positions in investment grade corporates and US agency mortgage-backed securities hampered returns in a widening spread environment.

Outlook

We continue to be cautious on adding risk, given tighter valuations and the strong likelihood we are transitioning out of the persistent low-volatility environment that we have seen. Generally supportive macroeconomic data and corporate balance sheets provide some base within the current environment for overweight credit exposure, albeit with an increasing focus on shorter tenors and lower aggregate credit beta.

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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