Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 March 2019

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	International Fixed Interest
Suggested investment timeframe	3 years
Relative risk rating	Low to Medium
Investment style	Multi-Manager

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

Actual Allocation	%
International fixed interest	62.83
Australian fixed interest	36.56
Cash	0.61

Fund Performance

The Fund posted a positive return (before fees) during the March quarter, but underperformed the benchmark. All of the four underlying managers produced positive absolute returns, with three managers outperforming their respective benchmarks during the period. Within the Australian bonds sector, **AMP Capital** outperformed its benchmark during the period. Credit positioning contributed to performance, with credit spread movements and the excess carry earned on credit securities held adding value. Interest rate management also added value overall, as the contribution from duration management more than offset the detraction from yield curve positioning. At the sector level, there were no detractors, with the overweight exposures to diversified financials, banks and subordinate-banks the main contributors to performance.

AB outperformed its cash benchmark during the period. Sector and security selection were the primary contributors to returns, as exposure to investment grade and high yield bonds in the eurozone and the US had a positive impact. An overweight to US inflation-linked securities and an underweight to emerging-market sovereigns also contributed. Contributions also came from country and yield curve positioning in the US and Australia, which outweighed losses from positioning in the eurozone.

Schroders marginally outperformed its benchmark. Small positions in duration and yield curve added value throughout the period, as did a long position in Australian investment grade credit as risk assets recovered, whereas an underweight to global higher yield credit offset some of these gains. Modest long credit allocations also provided some extra income. Inflation exposure in the US contributed whereas the Australian inflation position underperformed.

PIMCO underperformed its benchmark over the quarter. Interest rate management was the primary detractor from returns, with an underweight to UK duration negatively impacting returns after the Bank of England signalled a more cautionary tone, which led to a fall in sovereign yields. An underweight to Japanese duration also detracted as yields fell. Sector allocation added to returns overall, in particular early in the period with holdings in US inflation-linked bonds contributing as breakevens widened given a firm December inflation report and a strong recovery in oil prices. Off-benchmark exposure to high yield corporates (in particular financials) also enhanced performance due to spread tightening driven by dovish US Federal Reserve statements, solid earnings results and improved US-China trade sentiment.

Market Review

Global government bond yields fell in January amid a rebound in risk assets. Led by the US, market expectations pivoted to a pause in US Fed rate hikes after the central bank signalled a more dovish tone. Yields were largely range-bound in February, with geopolitical influences such as improved confidence of a positive resolution to the US-China trade conflict appearing to outweigh largely poor economic data releases and further economic growth forecast downgrades by central banks. March saw a significant bond market rally, with fears of a global growth slowdown gaining further traction as softer economic data releases on balance were accompanied by a shift to a more dovish tone from key central banks. Notably, markets saw an inversion of the 3-month to 10-year US Treasury yield curve late in the period, an event which can sometimes be a signal for recession. In Australia, bonds also rallied reflecting growing concerns around house prices and ongoing mixed economic data releases including weak December quarter inflation and a disappointing December quarter GDP reading. Global credit markets performed well during the quarter, with investment grade credit spreads tightening to recover most of the widening experienced during the prior quarter. Credit markets benefited from improved sentiment from early in the period as risk assets generally rebounded.

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, although the pace of change is likely to moderate in the shorter-term. Emerging market economies continue to experience 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 in the shorter to medium term. The Reserve Bank of Australia continues to exhibit an accommodative bias in its communications, and a weak economic backdrop is increasing the probability of a rate decrease in the short term. A weak housing market and high 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	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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