Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 March 2020

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 for each product, please visit www.amp.com.au

Investment Option Overview

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

Asset Allocation	Benchmark (%)
Australian Fixed Interest	60
International Fixed Interest	40
Cash	0

Actual Allocation	%
International Fixed Interest	62.23
Australian Fixed Interest	37.41
Cash	0.37

Fund Performance

The Fund posted a flat return (before fees) for the March quarter and underperformed the benchmark. Two of the underlying managers posted positive absolute returns.

Within the Australian bonds sector, **AMP Capital** underperformed its benchmark. 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, the overweight exposures to diversified financials, banks and banks – subordinate were the main contributors to performance. There were no detractors.

AB underperformed its cash benchmark. Performance was impacted by credit security selection, particularly within financials and US securitised assets, a long position in US inflation-linked bonds and long positions in the Russian ruble and Mexican peso. These more than offset the contribution from a long duration position in the US and duration positioning in the UK and Australia.

Schroders underperformed its benchmark. Modest overweight allocations to credit and inflation-linked bonds detracted from performance, more than offsetting the contribution from a long duration position.

PIMCO underperformed its benchmark. Performance was primarily impacted by US non-agency mortgage backed securities (MBS), European residential mortgage backed securities (RMBS) and investment grade industrials. An underweight exposure to the US dollar and emerging market currency positions versus the euro also detracted from performance. These more than offset the contributions from an overweight duration position in the US, tactical duration positioning in Europe and security selection within US agency MBS and investment grade financials.

Market Review

Global government bond yields drifted lower at the start of the year amid geopolitical tensions in the Middle East and the impeachment of US President Donald Trump. Yields subsequently accelerated lower as a rapid escalation in the human and economic impact of COVID-19 prompted global central bankers to significantly lower interest rates and governments to undertake unprecedented fiscal stimulus. Trading was characterised by heightened volatility, reflecting market concerns over the longer-term cost of the fiscal response, contrasting with optimism regarding its near-term social benefits. Australian government bond yields also moved lower in January against the backdrop of a softening in domestic economic momentum over the preceding months. Yields subsequently exhibited heightened volatility over the remainder of the March quarter as a sharp fall in response to the deepening impact of the COVID-19 crisis gave way to an upward spike amid fears of a liquidity crunch. The Reserve Bank of Australia addressed the issue of market liquidity by cutting the cash rate by 0.25%, setting a 0.25% yield target for Commonwealth 3-year bonds, and providing funding for domestic banks.

Outlook

Governments and central bankers around the world have announced unprecedented support and stimulus measures to ensure that the collateral damage to businesses and households is kept to a minimum through the shutdown period necessary to contain the spread of COVID-19. To date, these appear to be containing upward pressure on bond yields, with asset purchase programs by central banks also likely to encourage yields to move lower.

Against the backdrop of the liquidity and pricing dislocation caused by the economic and financial market impact of COVID-19, the Reserve Bank of Australia (RBA) has acted decisively to lower the cash rate, purchase bonds and provide low cost funding for banks. The RBA's actions will undoubtedly help the Australian economy and the banking sector to weather the storm, but they will take their time to play out.

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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INSIGHTS
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RESULTS

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