

# Schroder Fixed Income

Quarterly Investment Option Update

30 June 2020

## Aim and Strategy

To obtain exposure to a range of domestic and international fixed income assets with the objective of outperforming the Bloomberg AusBond Composite 0+Yr Index, whilst delivering stable absolute returns over time. The option adopts a Core-Plus investment approach whereby a core portfolio comprising of Australian investment grade bonds (including government, semi-government, supranational and corporate bonds) is complemented by investments in a diverse range of global and domestic fixed income securities. The targeted result is a defensive strategy which is broadly diversified with low correlation to equity markets.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

<b>Investment Category</b>	Fixed Interest
<b>Suggested Investment timeframe</b>	3 to 5 years
<b>Relative risk rating</b>	3 / Low to medium
<b>Investment style</b>	Core
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Aust. Investment Grade	100%	77.2%
Cash & Equivalents	0%	5.3%
Global Investment Grade	0%	4.7%
Australian High Yield	0%	10.8%
Global High Yield	0%	2.0%

Sector Allocation	%
Government	12.0
Semi-Government	20.9
Supranational/Sovereigns	14.8
Corporates	35.3
Subordinated	5.1
Collateralised	7.3

Quality Allocation	%
AAA	40.1
AA	13.0
A	12.3
BBB	29.4
Below BBB	2.3
Not Rated	0.2

Top Holdings	%
AUSTRALIA (COMMONWEALTH OF) 2.25 21-MAY-2028 Reg-S	3.2
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2026	2.9
INTERNATIONAL BANK FOR RECONSTRUCT 2.8 13-JAN-2021 (SENIOR)	2.1
NEW SOUTH WALES TREASURY CORP NONDMUNI 2.75 20-NOV-2025	1.7
AUSTRALIA (COMMONWEALTH OF) 3.25 21-JUN-2039 Reg-S	1.7
NEW SOUTH WALES TREASURY CORP NONDMUNI 5.0 20-AUG-2024	1.6
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2028 Dual 144a Reg-S	1.5
AUSTRALIA (COMMONWEALTH OF) 2.75 21-NOV-2027 Reg-S	1.5
AUSGRID FINANCE PTY LTD 3.75 30-OCT-2024 (SECURED)	1.4
AUSTRALIA (COMMONWEALTH OF) 3.75 21-APR-2037 Reg-S	1.4

## Investment Option Commentary

Over the June quarter the strategy had positive returns (gross of fees) ahead of the benchmark. The Investment Option's credit allocations provided the largest contribution to return in the quarter, as spreads narrowed significantly following the sharp widening of March. The Investment Option's rates positions contributed marginally with yields staying contained and inflation expectations bouncing a little from low levels.

## Market Commentary

An uplift in COVID-19 cases in the US, Victoria and a number of emerging markets through the second half of June, was not enough to deter investors as global markets continued their run of strong performance through June. As economies continued to re-open around the world, macroeconomic data generally improved with jobs data, manufacturing data and retail sales data all rebounding. In particular, the US payrolls stood out and beat expectations by 10 million, posting 2.5 million jobs created for May against a forecast of 7.5 million jobs lost. Elsewhere, business confidence indicators have also lifted up from very low levels and downgrades to forward corporate earnings have stabilised. However, given the uplift in COVID-19 case counts towards the end of the quarter, the Fund Manager have seen a number of restrictions start to be re-imposed in certain regions – which will add an element of uncertainty to the path of the recovery going forward. Globally, central banks reiterated their aim to provide liquidity support to markets, with the US Federal Reserve announcing plans to buy individual corporate bonds in addition to ETFs. In Australia, a negative GDP print of -0.3% for Q1 2020 all but ensures that Australia will enter a recession for the first time in 29 years, barring any significant revisions.

Global equities returned 18.5% over the quarter in local currency terms, as a stabilisation of COVID-19 case counts through April and May, and improved macroeconomic data buoyed risk markets, marking one of the best quarterly returns for equity markets, straight after one of the worst. Australian equities slightly underperformed global markets, producing a 16.5% return in the quarter – still very strong in an absolute sense. Government bond yields rose by 0.11% in Australia during the quarter, to end it 0.87%. In other major markets like the US, Japan and Germany, government bond yields remain little changed from the previous quarter end. The strong performance of risk assets also flowed on to credit spreads, where both high yield and investment grade spreads tightened significantly through the quarter but remain higher than they were prior to the crisis as the prospect of default risk is expected to pick up in the second half of 2020. Elsewhere, WTI crude oil prices have rebounded significantly over the last few months after briefly trading at negative levels in mid April, while iron ore climbed above US\$100 in June despite trade tensions between Australia and China continuing to linger.

## Outlook

Having begun to add to spread exposures in late March, over April and May, the Manager further allocated to credit, moderately increasing exposures in Australian investment grade, Australian higher yielding, global investment grade and US securitised assets. In June, the Manager began to trim and rotate away from outperforming and vulnerable areas. In rates the Manager sees reduced opportunity but has retained a small long duration exposure in Australia and the US, and small long inflation exposure, and been active in moving their curve exposures.

Overall, the Manager believes the portfolio is well positioned to both capture the opportunities and navigate the risks ahead, and to continue to provide low-risk income and diversification potential for broader portfolios.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1288AU
AMP Flexible Super - Retirement account	AMP1376AU
AMP Flexible Super - Super account	AMP1505AU
CustomSuper	AMP1288AU
Flexible Lifetime - Allocated Pension	AMP1295AU
Flexible Lifetime Investment (Series 2)	AMP2040AU
SignatureSuper	AMP1302AU
SignatureSuper Allocated Pension	AMP1309AU

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