AMP Capital Corporate Bond

Quarterly Investment Option Update

30 September 2020

Aim and Strategy

To deliver to investors regular monthly income (which exceeds the income from term deposits and government bonds) whilst seeking to provide capital stability to investors over the medium term. The portfolio also seeks provide total returns (primarily income with some capital growth) above the Bloomberg AusBond Bank Bill Index over a rolling three-year basis. The option invests in an actively managed portfolio of corporate bonds , primarily on investment grade rated corporate bonds in the Australian market and also has exposure to global bond markets. Exposure to global credit securities will principally be hedged back to Australian dollars.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	3 years
Relative risk rating	5 / Medium to High
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian Fixed Interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	5.73
Australian Fixed Interest	89.97
Cash	4.30

Sector Allocation	%
Investment Grade Corporate	81.82
Agency MBS	11.26
Cash	4.30
High-Yield Corporate	3.26
ABS (Non-Mortgage)	1.22

Top Holdings	%
Australia & New Zealand Banking Group Ltd	3.55
National Australia Bank Ltd	2.55
Sumitomo Mitsui Financial Grou	2.43
COMMONWEALTH BANK AUST	2.36
Westpac Banking Corp	2.28
BPCE SA	2.23
Banco Santander SA	2.11
BANK OF MONTREAL	2.07
Qantas Airways Ltd	1.98
VOLKSWAGEN FIN SERV AUST	1.95

Quality Allocation	%
BBB	43.59
A	34.43
AAA	12.86
Cash	4.30
AA	3.42
BB	2.41
CCC	0.84

Fund Performance

The Fund produced a positive absolute return in the September quarter.

Australian credit spreads tightened over the September quarter despite a resurgence of COVID-19, which prompted the re-introduction of lockdown measures across Melbourne and reignited concerns about the outlook for the retail sector. Results from the domestic corporate profit reporting season were mostly favourable from a credit perspective, which provided a particular boost to sentiment. The banking sector has been buoyed by the recent increase and extension of the Reserve Bank of Australia's Term Funding Facility, which has ensured that the major banks will not be solely reliant on the primary markets for their funding.

At the sector level, the better performers over the quarter were subordinated banks, industrials, real estate and banks.

At the security level, exposures to BHP Billiton, National Australia Bank, Qantas, Groupe BPCE, and Downer were the main contributors. An exposure to Australian Prime Property Fund was the only detractor of note.

Over the quarter, the more interesting credit positioning changes stemmed from the raft of new issuance which came to market. Most notable amongst these were: Tier 2 bank issuance from ANZ Banking Group and Commonwealth Bank of Australia; corporate hybrid issuance from AusNet Services and Scentre Group; and corporate issuance from Aurizon Network, Ausgrid and Qantas Airways. These were funded through reductions in BHP Billiton hybrids, AT1 issuance from ABN Amro, and rotation from primarily shorter-dated corporates.

Portfolio Positioning

The conservative portfolio positioning we had coming into the COVID-related selloff has meant that our exposures have rebounded quickly, and we have been able to take advantage of opportunities that have arisen in this intervening period. Current positioning has our credit exposures generating a strong level of excess yield, whilst not being overly exposed to any potential future bouts of volatility through the threat of a second wave of infections and weaker than anticipated economic growth.

Our fundamental sector and stock selection process continues to emphasise quality issuers whose credit profiles are supported by strong operating cash flows, sound liquidity profiles and an ability to maintain their credit ratings through this cycle. The depth of our research has also helped us identify sectors and issuers where the market reaction has been too fearful and has enabled us to purchase quality corporates at bargain prices.

Market Review

Australian long-dated government bond yields moved lower over the course of the quarter as economic prospects were impacted by a flare up in COVID-19 infections in Victoria and the subsequent reimposition of lockdown measures. Investors largely discounted the prospect of ongoing fiscal stimulus leading to higher medium-term inflation and instead focused on the implications of a decline in immigration and the prospect of reduced housing demand, an increasing shift to part-time employment and the impending tapering of the JobKeeper support initiative. The Commonwealth Government 10-year bond yield declined by eight basis points over the quarter to 0.79%, while its 2-year counterpart ended nine basis points lower at 0.16%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were around 1.0% for the period, in Australian dollar terms.

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Outlook

The Reserve Bank of Australia has kept its policy rate at a record low of 0.25%; implementing a yield curve control policy whereby it also targets the three-year bond yield at 0.25%. Further stimulus measures will be required to maintain the productive capacity of the economy, although monetary options will become more limited as interest rates approach zero. Given structural issues around an indebted consumer, which will likely see monetary policy constant for the time being, we expect Australian rates to remain low although are unlikely to become negative.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1322AU
AMP Flexible Super - Super	AMP1452AU
CustomSuper	AMP1289AU
Flexible Lifetime - Allocated Pension	AMP1296AU
Flexible Lifetime - Investments (Series 2)	AMP2037AU
Flexible Lifetime - Super	AMP1289AU
SignatureSuper	AMP1303AU
SignatureSuper - Allocated Pension	AMP1310AU
SignatureSuper Select	AMP1303AU

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