Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 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/performance

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	4 / 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	62.09
Australian Fixed Interest	37.38
Cash	0.53

Fund Performance

The Fund posted a positive return (before fees) for the September quarter and outperformed the benchmark. All of the underlying managers posted positive absolute returns and outperformed their respective benchmarks.

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Credit positioning benefited performance, reflecting the contributions from credit spread movements and the excess carry earned on credit securities held. Interest rate management also contributed to performance, reflecting the contributions from duration management and yield curve positioning. At the sector level, overweight allocations to diversified financials, banks – subordinate and semi-government bonds were the main contributors to performance. An underweight allocation to supranationals was the only detractor.

AB outperformed its cash benchmark. Performance benefited from long positions in investment-grade and high-yield credit and European corporate bonds, and exposure to credit risk transfer securities (CRTs) and commercial mortgage backed securities (CMBS). Long duration positions in Australia and South Korea, and exposure to European peripheral bonds, also contributed to performance, more than offsetting the impact of currency management.

Schroders outperformed its benchmark. Performance benefited primarily from an overweight allocation to non-government sectors, reflecting the extra income received and the capital contribution from credit spread compression. Duration positioning in Australia and an allocation to inflation-linked bonds also added value.

PIMCO outperformed its benchmark. Performance benefited mainly from sector allocation to US agency and non-agency mortgage backed securities (MBS), which outperformed as credit spreads tightened. Security selection within these sectors, and selection within investment grade financials also contributed. Duration management added to performance, reflecting the contributions from duration positioning in Italy, Australia and Germany, and yield curve positioning in the US.

Market Review

Global government bond yields moved lower in July as heightened geopolitical tensions and the ongoing struggle to contain COVID-19 held sway over upside surprises in US company earnings. Yields subsequently rebounded amid the inflationary implications of a move by the US Federal Reserve to adjust its inflation target and with sales and re-financing data pointing to sustained strength in the US housing market. Meanwhile, the prospect of a further US fiscal stimulus package remained elusive despite the US Federal Reserve Chair Jerome Powell reiterating that a lack of additional fiscal support represented a "downside risk" to the economic outlook.

Outlook

The outbreak of COVID-19 has triggered a global recession and policy makers around the world have responded with dramatic levels of monetary and fiscal stimulus. The recessionary hit to growth from COVID-19 has further compounded the structural concerns about a global lack of demand within the developed economies. The focus is now squarely on controlling the spread of COVID-19, but also on providing the necessary stimulus to help economies through rolling lockdowns and precautionary measures. But more will be needed to help regions quickly recover once it has been brought under control. The emergence of COVID-19 within an ongoing weak state of fundamentals and consistently weak inflation, as well as the adoption of yield curve targeting and quantitative easing monetary programs, continues to argue for a bias towards long duration positions, although the level of unconventional monetary policy stimulus is already helping to drive a notable recovery in a number of risk asset markets as well as tradable inflation markets.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1966AU
AMP Flexible Super - Super	AMP1973AU
CustomSuper	AMP1959AU
Flexible Lifetime - Allocated Pension	AMP1952AU
Flexible Lifetime - Investments (Series 2)	AMP1991AU
Flexible Lifetime - Super	AMP1959AU
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Select	AMP1975AU

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