

AMP Australian Bond

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

To provide a total return (income and capital growth) above the Bloomberg AusBond Composite 0+ Yr Index on a rolling 12-month basis. The portfolio invests primarily in Australian government bonds and credit securities and the portfolio may also invest in global fixed income securities, and derivatives in global fixed income markets, which may include a small exposure to emerging markets. Exposure to global fixed interest 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	2 years
Relative risk rating	Medium to high
Investment style	Active
Manager style	Single

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

Actual Allocation	%
International Fixed Interest	1.87
Australian Fixed Interest	96.26
Cash	1.87

Sector Allocation	%
Investment Grade Corporate	53.01
Government Agencies/Regionals	23.03
Developed (Non-US) Sovereign Debt	12.21
Agency MBS	8.34
Cash	1.87
High-Yield Corporate	0.89
ABS (Non-Mortgage)	0.85

Top Holdings	%
AUSTRALIAN GOVERNMENT	12.21
NEW S WALES TREASURY CRP	5.86
QUEENSLAND TREASURY CORP	4.89
TREASURY CORP VICTORIA	3.54
SOUTH AUST GOVT FIN AUTH	2.84
NORTHERN TERRITORY TREAS	2.19
WESTERN AUST TREAS CORP	1.80
BANK OF MONTREAL	1.72
WELLS FARGO & COMPANY	1.67
National Australia Bank Ltd	1.60

Quality Allocation	%
BBB	28.40
Agency/Government	23.03
A	19.80
Treasury	12.21
AAA	11.36
AA	2.62
Cash	1.87
BB	0.69
CCC	0.21

Fund Performance

The Fund posted a positive return (before fees) in the December quarter and outperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, posted a positive absolute return and outperformed its benchmark. The smaller inflation-linked component, managed by **Ardea**, also posted a positive absolute return and outperformed its benchmark.

AMP Capital's performance benefited from volatility positioning at the short-end of the European, long-end of the Australian, and intermediate section of the US, yield curves. Emerging markets also performed well, with Mexico particularly benefitting from continued inflows. Semi-government exposures also performed well.

Inflation-linked bond fund manager **Ardea** benefited particularly from gains in breakeven inflation, yield curve, semi-government and bond-swap strategies. Breakeven inflation strategies were assisted by the Fund's overweight positioning to the long-end of the inflation curve. The Fund also benefitted from yield curve strategies over the quarter as a whole. Semi-government bonds continued to attract robust demand from financial institutions for regulatory capital purposes.

Market Review

Stimulus measures implemented in response to the impacts of COVID-19 have clearly bolstered the domestic economy, with a study from the Reserve Bank of Australia showing that the JobKeeper wage subsidy scheme reduced total employment losses by at least 700,000 over the period from April to July, bolstering sentiment within the fixed income market. Domestic economic news flow during the December quarter was highlighted by a rise of 3.3% in gross domestic product in the third quarter, following a record 7.0% fall in the previous quarter. The rebound was largely driven by household spending which rose sharply following the easing of lockdown restrictions in Victoria. The Commonwealth Government 10-year bond yield rose by 18 basis points over the quarter to 0.97%, while its 2-year counterpart ended nine basis points lower at 0.07%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were -0.16% for the period, in Australian dollar terms.

Outlook

The Reserve Bank of Australia has reduced its policy rate to a record low of 0.10%, essentially zero, with an associated broad-based quantitative easing and bond purchase programme. However, additional stimulus measures will be required to maintain the productive capacity of the economy, although monetary options are now more limited, with negative interest rates unlikely at this juncture. Despite structural issues around an indebted consumer, which could create future risks, we see monetary policy remaining accommodative for the foreseeable future.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1319AU
AMP Flexible Super - Super	AMP1449AU
CustomSuper	AMP0343AU
Flexible Lifetime - Allocated Pension	AMP0590AU
Flexible Lifetime - Investments (Series 1)	AMP1048AU**
Flexible Lifetime - Investments (Series 2)	AMP1388AU**
Flexible Lifetime - Super	AMP0343AU
Flexible Lifetime - Term Pension	AMP0890AU
SignatureSuper	AMP0738AU
SignatureSuper - Allocated Pension	AMP1128AU

**Closed to new and existing investors

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



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