Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 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	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	62.37
Australian Fixed Interest	36.81
Cash	0.82

Fund Performance

The Fund posted a positive return (before fees) for the December 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. The overall impact of interest rate management was negative. At the sector level, overweight allocations to industrials, banks – subordinate and semi-government bonds were the main contributors to performance. An underweight allocation to supranationals was the only detractor at the sector level.

AB outperformed its cash benchmark Performance benefited primarily from allocations to investment-grade corporate bonds in the US, Europe, the UK and Australia. Exposure to high-yield corporate bonds in the US and Europe, US credit-risk transfer securities, commercial mortgage backed securities, and government and corporate bonds in the emerging markets also added to performance.

Schroders outperformed its benchmark. Performance benefited from a contraction in credit spreads and, in particular, exposure to economically sensitive sectors and companies as these are anticipated to recover quickly as the distribution of COVID-19 vaccines progresses. Duration management also added to performance.

PIMCO outperformed its benchmark. Performance benefited primarily from sector and security selection within US mortgage backed securities, financial corporate credit and securitised assets. Currency selection added to performance, reflecting the contributions from a short position in the US dollar and a long position in the Japanese yen.

Market Review

Data evidence of resilience in the US housing sector underpinned strength in US bond yields early in the quarter, notwithstanding market caution ahead of the US presidential election. Yields were further boosted by the successful clinical trial and regulatory approval of the COVID-19 vaccine developed by Pfizer and its German partner BioNTech, and subsequent moves towards the commencement of mass inoculation. Central banks maintained their commitment to providing financial market support, with the US Federal Reserve undertaking to continue asset purchases "at least at the current pace" over "coming months", along with a similar undertaking from the European Central Bank. In Australia, stimulus measures implemented in response to the impact of COVID -19 have clearly bolstered the domestic economy, with domestic economic news flow in December highlighted by a rise of 3.3% in gross domestic product in the third quarter. This followed a record 7.0% fall in the previous quarter.

Outlook

The outbreak of COVID-19 triggered a global recession and policy makers around the world continue to respond with significant levels of monetary and fiscal stimulus. The emergence of the pandemic within an ongoing weak state of fundamentals and subdued inflation, as well as the adoption of yield-curve targeting and quantitative easing monetary programmes, continues to argue for a bias towards long duration positions, although the level of unconventional monetary policy stimulus has already helped to drive a recovery in a number of risk asset markets as well as tradable inflation-sensitive markets. 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	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

**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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