

# Schroder Fixed Income

## Quarterly Investment Option Update

31 December 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/performance](http://amp.com.au/performance)

### Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Aust. Investment Grade	100%	74.6%
Cash & Equivalents	0%	7.4%
Global Investment Grade	0%	3.7%
Australian High Yield	0%	10.4%
Global High Yield	0%	3.9%

Sector Allocation	%
Government	13.6
Semi-Government	21.5
Supranational/Sovereigns	11.5
Corporates	33.1
Subordinated	6.1
Collateralised	7.3

Quality Allocation	%
AAA	27.9
AA	22.5
A	8.8
BBB	29.5
Below BBB	4.0
Not Rated	0.8

Top Holdings	%
NEW SOUTH WALES TREASURY CORPORATI GOVTGUAR 3.0 20-MAR-2028 Reg-S	2.5
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2026 Dual 144a Reg-S	2.0
NEW SOUTH WALES TREASURY CORP NONDMUNI 2.75 20-NOV-2025	1.8
NEW SOUTH WALES TREASURY CORP NONDMUNI 5.0 20-AUG-2024	1.6
TREASURY CORPORATION OF VICTORIA 1.5 10-SEP-2031	1.6
AUSTRALIA (COMMONWEALTH OF) 1.75 21-JUN-2051 Reg-S	1.5
AUSTRALIA (COMMONWEALTH OF) 2.25 21-MAY-2028 Reg-S	1.5
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
AUSTRALIA (COMMONWEALTH OF) 3.25 21-JUN-2039 Reg-S	1.4

## Investment Option Commentary

The Schroder Fixed Income Option delivered a positive return in the December quarter. This closed out a year of very strong positive performance.

Relative to the benchmark the fund's performance over the quarter was driven by the Manager's overweight allocation to credit securities, as well as credit sector preferences and the individual security selection decisions within the Fund's credit allocations. The Fund thus benefited from the general contraction in credit spreads and in particular benefited from the Manager's preference for sectors and companies with greater cyclical exposure, which are expected to recover quickly once the vaccine roll out progresses. Over the year, the Fund's long duration exposure added considerably to performance.

The Manager remains constructively positioned in credit securities but has reduced interest rate exposure over recent months. Through the quarter, the Manager increased their allocations to emerging market debt and Asian credit and marginally reduced higher quality developed market exposure. The Manager continued to add to yield curve steepening exposure in the US treasury market and reduced the Fund's total duration position following the positive vaccine news in November.

## Market Commentary

The global rollout of a number of COVID-19 vaccines and a strong outlook for earnings in 2021 pushed equity markets higher through the month. However, it was not all positive news as case numbers continued to surge in the US and Europe, and the emergence of a more contagious strain out of the UK and South Africa, have resulted in harsh lockdowns and could delay the recovery. Meanwhile an outbreak in Sydney also resulted in localised lockdowns. On the political front, Trump continued to mount unsuccessful legal challenges in an attempt to overturn the US election, while the Georgia runoff vote allowed the Democrats to effectively take control of the senate – which is likely to result in increased fiscal stimulus as well as the potential for corporate tax hikes. Elsewhere, the UK and EU managed to reach a Brexit agreement on trade and a number of other issues. In terms of macroeconomic data, global manufacturing indicators remain strong, however with lockdowns coming in to place in Europe and parts of the US, a number of shorter-term indicators have begun to turn more negative. Locally, Australia reported a strong Q3 GDP growth rate of 3.3%, which was above expectations, while business confidence also strengthened.

Global equities returned 3.6% in local currency terms during December, while the Australian market underperformed producing a return of 1.2% for the month. Over the quarter, both Australian and global equities performed very strongly with returns of 13.7% and 12.3% respectively. Emerging markets were the standout performer by region, returning 19.7% in USD terms over the fourth quarter. Government bond yields continued to rise over the month on the prospect of higher inflation rates, with Australian bond yields increasing by 0.07% to end the month at 0.97%, while US bond yields also increased by 0.07% to end the month at 0.91%. Bond yields in Germany and Japan defied this trend and were broadly flat for the month. Credit spreads also continued to tighten across the board, most notably in high yield (HY), where they have now tightened by over 150 basis points through the fourth quarter. Within commodities, iron ore was a strong performer and gained approximately 25% in December in response to Chinese demand. This was one factor which help support the Australian Dollar which appreciated by 4.7% in the month.

## Outlook

The Manager continues to believe that credit allocations are likely to deliver the best returns within fixed income for some time yet. However, although corporate fundamentals are improving as economies recover, the risks for investors have shifted as spreads have now tightened into expensive territory. Consequently, the Manager is trimming their aggregate exposure at the margin in order to protect against downside, while focusing exposure to the assets and sectors they believe have the best potential to participate in the upside of economic recovery. Asian and emerging market debt at the asset class level are attractive prospects, as are transport and property at a sectoral level. Alongside this positioning, the Manager is closely monitoring macro and corporate developments to validate (or otherwise) their recovery thesis.

The Manager is also being more targeted in their approach to duration management. In a low-volatility interest rate environment where central banks have yield curves under administration, this means being more selective about where to hold interest rate risk (which countries and where on the yield curve), and preparing sensibly for higher interest rate volatility.

## Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1505AU
AMP Flexible Super - Retirement	AMP1376AU
CustomSuper	AMP1288AU
Flexible Lifetime - Super	AMP1288AU
Flexible Lifetime - Allocated Pension	AMP1295AU
Flexible Lifetime - Investments (Series 2)	AMP2040AU**
SignatureSuper	AMP1302AU
SignatureSuper - Allocated Pension	AMP1309AU

\*\*Closed to new and existing investors

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