AMP Capital Corporate Bond

Quarterly Investment Option Update

31 March 2021

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	Medium to High
Investment style	Active
Manager style	Single

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

Actual Allocation	%
International Fixed Interest	3.35
Australian Fixed Interest	93.55
Cash	3.10

Sector Allocation	%
Investment Grade Corporate	81.50
Agency MBS	10.96
Cash	4.69
High-Yield Corporate	3.05
ABS (Non-Mortgage)	1.23
Government Agencies/Regionals	0.17

Top Holdings	%
National Australia Bank Ltd	3.50
Australia & New Zealand Banking Group Ltd	3.30
Westpac Banking Corp	2.99
COMMONWEALTH BANK AUST	2.65
Sumitomo Mitsui Financial Grou	2.33
Banco Santander SA	2.29
BPCE SA	2.27
Qantas Airways Ltd	2.25
BANK OF MONTREAL	2.21
TORONTO-DOMINION BANK	1.85

Quality Allocation	%
BBB	44.08
A	32.80
AAA	12.27
Cash	4.69
AA	4.54
BB	2.10
CCC	0.95
Agency/Government	0.17

Fund Performance

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

The Fund had a strong quarter, with performance primarily being driven by tightening credit spreads over the period, as markets continued to looked ahead to economies opening up as COVID-19 vaccines are distributed in 2021 and a belief central banks will be able to manage any nascent inflationary pressures. Combined with the additional risk premia earned from carry, this meant another strong credit excess return outcome over the quarter.

At the sector level, exposures to subordinated banks, industrials and securitised were the top performers. There were no detractors of note.

At the security level, exposures to Scentre Group, Brisbane Airport, Qantas, and subordinated debt from NAB and Westpac were the main contributors. Exposures to Aurizon, ETSA Utilities, and Ausgrid were the main detractors.

During the quarter, the Fund added to industrials and real estate exposures whilst taking profit on utilities and consumer discretionary exposures within corporates.

Portfolio Positioning

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. More recently, we have been taking profit on exposures that have traded within our expectations of fair value and have added some credit derivative protection against a mild selloff. Despite this recent action, over the medium term, we continue to anticipate that credit spreads will ultimately tighten modestly in a technically driven manner, mainly due to the supply versus demand dynamics and the reach for yield.

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 rose sharply over the March quarter. Against a backdrop of mostly favourable economic data, yields were buoyed by the view that progressive vaccine distribution is conducive to resurgent economic growth which, in turn, leads to higher inflation and correspondingly higher bond yields. The upward move extended to shorter maturities, despite the RBA adding a further A$100 billion to its quantitative easing program and saying that a return to a tight labour market to an extent that would warrant an increase in the cash rate is not expected until 2024 at the earliest. The Commonwealth Government 10-year bond yield rose by 82 basis points over the quarter to 1.79%, while its 2-year counterpart ended two basis points higher at 0.09%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were -3.22% for the period, in Australian dollar terms.

Outlook

The Reserve Bank of Australia (RBA) is maintaining its yield curve control policy. Monetary policy has reduced volatility at the front end of curve and provides attractive opportunities in the mid-curve for carry and roll. However, there has been more recent upward pressure on global yields which is feeding through to the Australian market. Given the structural issues around an indebted consumer sector and upward pressure on the dollar, the RBA will more likely ease further at this juncture rather than tighten monetary policy, unless global conditions significantly change events. However, we expect the current low volatility in Australian rates to continue for the time being.

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

**Closed to new and existing investors

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