Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 June 2021

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	Low to 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	62.41
Australian Fixed Interest	36.91
Cash	0.67

Fund Performance

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

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Interest rate management benefited performance, as the contribution from yield curve positioning more than offset the impact of duration management. Credit positioning added to performance, reflecting the contributions from credit spread movements and the excess carry earned on credit securities held. At the sector level, overweight allocations to banks – subordinate, industrials and diversified financials were the main contributors to performance. An underweight allocation to supranationals and an overweight allocation to semi-government bonds were the only detractors.

AB outperformed its cash benchmark. Performance benefited from allocations to investment-grade and high-yield credits, European inflation-linked bonds, credit risk transfer securities and emerging market corporate bonds. Duration positioning in Australia, the US and the UK, and long positions in the Brazilian real, Russian ruble and Chinese yuan also contributed to performance.

Schroders outperformed its benchmark, having been positioned for a flatter yield curve and also benefiting from the outperformance of inflation-linked bonds. An overweight allocation to corporate bonds also contributed to performance through income generation and the positive price impact of credit spread compression.

PIMCO underperformed its benchmark. Performance was impacted by duration positioning in the US, New Zealand and the emerging markets as short-dated yields moved higher. This more than offset the contribution from an overweight allocation to financials and security selection within this sector, which benefited from credit spread tightening.

Market Review

US long-dated government bond yields moved lower over the June quarter, producing a flattening in the US yield curve as shorter dated maturities remained buoyed. The respective movements in yields followed the US Federal Reserve bringing forward its likely time horizon for monetary tightening to 2023 from 2024 previously. Longer-dated yields moved lower in line with the moderation in longer-term inflation expectations, while short-dated yields moved higher in anticipation of the prospective policy shift. Recent economic data has shown that US consumer prices lifted strongly in May while the broader US economy has rebounded to surpass where it was in the final quarter of 2019 before the pandemic struck. The US 10-year bond yield ended the quarter 27 basis points lower at 1.47%. Its Japanese counterpart ended four basis points lower at 0.05% and the German 10-year bond yield rose by eight basis points to -0.21%.

Australian long-dated government bond yields ended the quarter substantially lower, resulting in a flattening in the longer dated segment of the domestic yield curve. In contrast, yields on bonds maturing shortly after the scheduled end of yield curve control remained relatively anchored, in part due to the May labour force survey, which showed a gain of 115,200 in the number of people employed. Employment has lifted by 8.1% from its level of a year ago, with indications that jobs growth across the economy has overcome any negative impact from the ending of the JobKeeper support program. The resurgence of COVID-19 and associated lockdown measures in several capital cities have yet to prompt a major yield reversal, but the situation remains fluid. The Commonwealth Government 10-year bond yield ended the quarter 26 basis points lower at 1.53% while its 2-year counterpart ended three basis points lower at 0.06%.

Outlook

The global economy is preparing to try and pull itself out of the COVID-19 recessionary hole in 2021. With widespread distribution of the newly developed vaccines and the end of a difficult Northern hemisphere winter case peak, global economic activity has been accelerating. However, we are seeing large divergences across the globe. While the US economy seemingly pulls ahead with rapid vaccination and large stimulus, European stimulus has lagged despite their vaccination rates beginning to accelerate with much of the rest of the globe even further behind as a third wave of cases looks to be picking up in a number of countries. The recessionary hit to growth from COVID-19 has further compounded the structural concerns about a global lack of demand within the developed economies and significantly worsened inequality. As vaccination programs allow countries to normalise, it will be important for fiscal and monetary stimulus to continue to support the recovery through lumpy inflation and activity rebounds. The emergence of COVID-19 within an ongoing weak state of fundamentals is likely to set a cap on the repricing of duration, although it is likely there will be a strong cyclical recovery from vaccine distribution and the normalisation of many economies which, alongside unconventional monetary policy stimulus, will drive a strong recovery in risk asset markets but is unlikely to solve many of the long-term structural issues that have plagued global economies.

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

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