AMP Capital Corporate Bond

Quarterly Investment Option Update

31 March 2022

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	2.90
Australian Fixed Interest	93.49
Cash	3.61

Sector Allocation	%
Investment Grade Corporate	83.93
Agency MBS	10.00
Cash	3.59
High-Yield Corporate	1.20
ABS (Non-Mortgage)	1.09
Government Agencies/Regionals	0.19

Top Holdings	%
COMMONWEALTH BANK AUST	3.75
National Australia Bank Ltd	3.21
BPCE SA	3.19
Australia & New Zealand Banking Group Ltd	3.18
Banco Santander SA	3.01
Westpac Banking Corp	2.67
BANK OF MONTREAL	2.54
TORONTO-DOMINION BANK	2.22
Sumitomo Mitsui Financial Grou	2.11
Bank of Queensland Ltd	2.01

Quality Allocation	%
BBB	39.07
A	36.64
AAA	12.03
AA	7.26
Cash	3.61
BB	1.20
Agency/Government	0.19

Fund Performance

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

Performance due to interest rate moves were the primary driver of this result, reflecting sharp moves higher in bond yields as the market priced in a series of hikes in the cash rate. These moves led to sharp losses across Australian and global fixed income products in general, with the Fund being one of the better performers on this front. Credit positioning also detracted from performance, as impact of credit spread movements more than offset the contribution from carry.

At the sector level, allocations to consumer staples and technology were the top performers. Allocations to subordinated banks, diversified financials and industrials were the main detractors.

At the security level, exposures to Credit Agricole, Ale Direct Property Trust and Australian Prime Property Fund were the main contributors. Exposures to ABN AMRO Bank, Commonwealth Bank of Australia and Bank of Queensland were the main detractors.

Portfolio Positioning

We are currently positioned to benefit from attractive income in the period ahead, with a modest sensitivity to credit spread movements and low exposure to interest rate changes. We continue to be selective in our participation in longer-dated primary issuance, but are increasingly focused on shifting the credit profile of our portfolios to more of an income orientation. Overall, it remains the case that the bulk of our credit exposure remains inside a five-year tenor, and with very little in the low-BBB range that may be more at risk of downgrade into high yield. Our credit hedging strategy implemented via credit indices continues to also provide some insulation to the portfolio protecting the income profile of the portfolio.

Market Review

Australian government bond yield movements mirrored those in the US in the March quarter, both in terms of cause and outcome. As in the US, Australian 4Q21 inflation rose strongly, prompting an upward movement in yields. At its first Board meeting of the year, the RBA acknowledged the rise in inflation, noting the "persistence of the disruptions to supply chains and distribution networks and their ongoing effects on prices". The central bank also announced an end to its bond purchase program, citing "faster-than-expected progress" towards its employment and inflation goals. Although domestic inflationary pressure has yet to accelerate to US levels, the RBA appears to be laying the groundwork for an interest rate move. Governor Lowe recently noted that it's "plausible" the cash rate will be increased later this year and that it's "prudent to plan" for a hike, alluding to the risk of sustained supply shocks further boosting inflation expectations. Fiscal stimulus measures announced in the Federal Budget focus on providing near-term relief to cost of living pressures, but it is unclear whether it will do enough to dampen inflation sustainably. The Commonwealth Government 2-year bond yield ended the quarter 122 basis points higher at 1.81% while the Commonwealth Government 10-year bond yield ended 117 basis points higher at 2.84%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -5.88% during the period, in Australian dollar terms.

Outlook

The RBA held monetary policy steady at their March meeting after ending the bond purchase program at the previous meeting. The central bank continues to stress patience with inflation, distancing itself from the extremely high inflation in other developed markets, with domestic trimmed mean inflation only just returning to the midpoint of the target band. Nonetheless, the central bank's rhetoric has turned mildly hawkish, acknowledging that a hike in 2022 is plausible, albeit not their base case. Governor Lowe shifted the focus away from the Wage Price Index to labour costs. Labour data surprised to the upside again in February with the unemployment rate falling 0.2% to

4.0%. Whilst the invasion of Ukraine by Russia continues to introduce uncertainty into the global economy, markets appear to have shifted focus towards inflation and the actions of central banks, seeing several hikes priced for the RBA for 2022. It is unlikely the central bank shifts its rhetoric to meet these expectations.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 2)	AMP2037AU**
SignatureSuper	AMP1303AU*
SignatureSuper - Allocated Pension	AMP1310AU*

*Closed to new investors

**Closed to new and existing investors

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