Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

The strategy aims to provide total returns (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 3-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	4 / Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian fixed interest	60
Global fixed interest	40
Cash	0

Actual Allocation	%
International Fixed Interest	64.43
Australian Fixed Interest	35.50
Cash	0.07

Fund Performance

The Fund posted a negative return (before fees) for the March quarter, though outperformed the benchmark. In regard to the Fund's underlying managers, all four posted negative absolute returns, with PIMCO being the sole outperformer for the period.

Within the Australian bonds sector, Macquarie (who recently took over from AMP Capital) underperformed its benchmark. Credit positioning detracted from performance, as the impact of credit spread movements more than offset the contribution from the excess carry earned on credit securities held. Interest rate management also detracted. At a sector level, overweight allocations to subordinated banks, diversified financials and securitised product were the main detractors.

AB also underperformed its cash benchmark, though produced the best absolute return of our underlying managers given its absolute return focus. Country/yield-curve positioning detracted, with the manager's long duration exposure in the US losing value as yields rose amid increasingly hawkish rhetoric from the US Federal Reserve (Fed). Long duration positioning in the UK also detracted after the Bank of England continued to hike rates.

Schroders underperformed its benchmark. Allocations to Asian corporate securities detracted value, despite recently being reduced in weight. The manager's Australian investment grade credit holdings also underperformed, noticeably against both US investment grade and US high yield in risk-adjusted terms.

PIMCO slightly outperformed its benchmark. Towards the end of the quarter, currency positioning in the US dollar contributed, as did an underweight to US and European duration, amid rising global yields.

Market Review

US government bond yields moved substantially higher over the course of the March quarter. The impetus for the rise came from US consumer price inflation, which rose to a multi-decade high, fuelling expectations that the Fed may act sooner than previously expected in raising interest rates to address what it termed "elevated levels of inflation". These expectations eventuated in March when the target range for the Federal Funds Rate was increased from 0%-0.25%, where it had been for the last two years, to 0.25%-0.50%. The central bank cited strength in the labour market and "elevated" inflation as motivations for its action and set the stage for further increases, saying it "anticipates that ongoing increases in the target range will be appropriate". The US 10-year bond yield ended the quarter 83 basis points higher at 2.34%. The Japanese 10-year bond yield ended 14 basis points higher at 0.21% and the German 10-year bond yield rose by 73 basis points to 0.55%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), returned -4.98% for the period, in Australian dollar terms.

Australian government bond yield movements mirrored those in the US in the March quarter, both in terms of cause and outcome. Although domestic inflationary pressure has yet to accelerate to US levels, the Reserve Bank of Australia (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 global economy has largely recovered from the COVID-19 recession that began in 2020, with widespread distribution of vaccines seeing global economic activity accelerate and assisting in the transition of the virus from pandemic to endemic. However, we are seeing large divergences across the globe, which have only been exacerbated by differing levels of exposure to the Russia-Ukraine crisis. The Russian invasion of Ukraine is driving exacerbated by differing levels of exposure to the Russia-Ukraine crisis. The Russian invasion of Ukraine is driving a further surge in supply-side inflation and will complicate the recovery. Both global central banks and markets seemed to have turned their focus to inflation, with the Fed flagging the potential for multiple 50 basis point hikes in 2022. This raises the question of whether central banks have fallen too far behind the curve such that harnessing inflation brings a premature end to the cycle. In Australia, the RBA's rhetoric has turned mildly hawkish, acknowledging that a hike in 2022 is plausible. Markets appear to have shifted focus towards inflation and the actions of central banks, seeing numerous hikes priced for the RBA for 2022. At this stage, it is unlikely the central bank shifts its rhetoric to meet these aggressive market expectations.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 2)	AMP1991AU**
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Term Pension	AMP1977AU

**Closed to new and existing investors

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