Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 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 this 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	74.40
Australian Fixed Interest	25.60

Fund Performance

The Fund posted a negative return (before fees) for the September quarter, though outperformed of benchmark over the period. Our low duration tilt over the quarter benefited the return, as our underlying managers, collectively, also managed to navigate through the difficult environment.

Within the Australian bonds sector, Macquarie outperformed its benchmark. The manager's tilts towards the semi-government sector offered attractive excess yields vs commonwealth government bonds. Credit positioning detracted from performance towards the end of the quarter, as credit spreads moved wider. Macquarie's positioning has now shifted to modestly long duration, from neutral positioning mid quarter, as they believe the curve will continue to flatten as central banks hike through neutral levels.

Schroders underperformed its benchmark. Credit positioning detracted from performance, as Australian investment grade bonds struggled, though the manager's credit derivative hedges offset some of this. Schroders currently have a neutral duration exposure, though a bias to add more duration as inflation is shown to be slowing. Credit positioning remains defensive as they await opportunities to increase exposure.

Within the global bonds sector, PIMCO contributed positively. Allocations to Financial corporate credit contributed, as did positioning to developed market duration as yields fell.

AB delivered positive returns and exceeded its cash benchmark with credit spreads rallying over the holding period.

At the end of August, we made some optimisations to the portfolio to better meet investor objectives in the new market regime. The higher level of yields on offer for investors has led to the removal of AB from the portfolio and a change to PIMCO's mandate. AB ran a benchmark-unaware strategy investing across various fixed income sectors with low and variable levels of interest rate risk. PIMCO's mandate has been changed from a 50/50 Australian and global fixed income strategy to a dedicated global fixed income strategy.

Market Review

Global government bond yields continued their move higher across the yield curve in the September quarter, with no signs of inflation being tamed as yet, and a misinterpretation by the market, or perhaps misguided hope, that certain weak data points would lead to a quick reversal of interest rate rises seen in many countries. Whilst food and oil prices have fallen from their June highs, inflation driven by wages, goods and services remains stubbornly high. In the short-term, the silver lining for the US consumer is that much of the existing loan stock was fixed for 30 years at relatively low rates; therefore monthly mortgage payments are not as sensitive to rate rises compared to many other countries. Meanwhile, businesses and the labour market continue to show resilience. In recent months, a variety of Fed governors have reinforced a firm and unambiguous stance to bring inflation back towards target, with Powell hinting at some pain for some parts of the economy being a necessary outcome. Elsewhere, political stability in the UK in recent months caused large changes in yields and the pound, and led to a funding crisis for certain UK pension funds.

The rise in rates across many markets again led to negative returns across most fixed income sectors over the quarter and continued the large sell off in bonds over 2022. Global bonds, as measured by the Bloomberg Global Aggregate Index ($A hedged), returned -3.78% for the period, in Australian dollar terms. Over the same period, global investment grade and high yield credit also fell 4.85% and 1.94%, respectively, as measured by the Bloomberg Global Aggregate Corporate Index ($A hedged) and Bloomberg Global High Yield Index ($A hedged).

Outlook

Ongoing supply chain disruptions, exacerbated by war in Ukraine, continues to be a source of inflationary pressure. Central banks remain focussed on reining in inflation with interest rate hikes, thus continuing to increase recessionary risk. After heavy falls in bond markets in recent years, some yields appear to have peaked, thus there may be scope for returns to improve in the shorter-term.

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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