

# Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 June 2019

## 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](http://www.amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Global fixed interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Relative risk rating</b>	Low to Medium
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian Fixed Interest	60
International Fixed Interest	40
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	62.97
Australian Fixed Interest	36.62
Cash	0.41

## Fund Performance

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

Within the Australian bonds sector, **AMP Capital** outperformed its benchmark. Performance was driven by credit positioning, with contributions from credit spread movements and carry. Interest rate management detracted, as the negative impact of duration management more than offset the positive contribution from yield curve positioning. At the sector level, overweight exposures to diversified financials, banks – subordinate and banks were the main contributors to performance.

**AB** outperformed its cash benchmark. Sector and security selection were the primary contributors to returns, reflecting the positive impact of exposure to US Treasuries and European investment-grade and high-yield corporate issues. Country allocation and yield curve positioning also contributed to returns, reflecting the positive impact of positioning in the US, Indonesia and Australia.

**Schroders** outperformed its benchmark. A long-duration position and yield curve positioning contributed to relative returns as yields declined over the quarter. The additional income received from high-quality securities also had a positive performance impact. The main detractors were an exposure to Australian inflation-linked bonds and a short position in global high-yield securities.

**PIMCO** outperformed its benchmark. An off-benchmark exposure to high yield corporates, specifically financials, contributed to performance, reflecting the impact of spread tightening. Long positions in a basket of high-yielding emerging market currencies, specifically the Colombian peso and Russian rouble, also had a positive impact. An overweight duration position in the US also contributed, while an underweight duration position in Italy detracted as yields fell.

## Market Review

Global government bond yields mostly moved higher in the early part of the June quarter amid generally favourable economic data releases. In the US, gross domestic product rose at a stronger than expected rate as contributions from trade and inventory offset slower growth in consumer spending and investment. Yields subsequently reversed direction over the remainder of the period as a lowering of regional growth forecasts stoked expectations of co-ordinated easier monetary policy by major central banks. In the domestic bond market, there was the further inversion of yield spreads across all tenors of Commonwealth Government bonds relative to their US counterparts during April. Bond yields extended their downward move over the remainder of the quarter amid a slowdown in the rate of private sector credit growth and a contraction in business and personal lending. Global credit spreads tightened in April as the continuation of accommodative monetary policies fuelled an ongoing inflow of investment funds into credit and broader fixed income investments. Subsequent market unease in May, amid concerns related to global trade, gave way to renewed optimism in June following the US move to suspend tariffs on Mexico.

## Outlook

Very low sovereign bond yields and increasing global economic uncertainty point to low short to medium-term returns from global sovereign bonds. Within a generally benign inflationary environment, an unresolved US-China trade dispute causing a flight to safety, and a recent increased bias from central banks towards more accommodative stances; any upward pressure on bond yields is now likely to be subdued for the time being; at least until the global economic environment shows signs of improved sentiment, momentum and visibility.

With the Reserve Bank of Australia (RBA) cutting the cash rate to 1.25% in early June and telegraphing further interest rate cuts, Australian yield premiums are narrowing compared to those available in Japan and Europe. Although Australian sovereign fixed income and corporate credit still remain relatively attractive from an international and yield perspective, this advantage will steadily erode as the RBA completes its cutting cycle. A continuing weak housing market and high household debt levels also remain areas of concern and are likely to add to downward pressure on yields.

## Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP1959AU
AMP Flexible Super - Retirement account	AMP1966AU
AMP Flexible Super - Super account	AMP1973AU
CustomSuper	AMP1959AU
Flexible Lifetime - Allocated Pension	AMP1952AU
Flexible Lifetime - Investments (Series 2)	AMP1991AU
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Select	AMP1975AU

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267



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