

Macquarie Income Opportunities

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

The Fund predominantly provides exposure to a wide range of domestic and global investment grade floating and fixed rate instruments, asset-backed securities, and cash. The Fund may also have opportunistic exposure to other fixed income sectors and instruments such as, high yield and emerging markets debt as well as other fixed income instruments. Interest rate risk will generally be hedged through the use of derivatives such as swaps and futures. The investment process aims to reduce the risk of the Fund being adversely affected by unexpected events or downgrades in the credit rating of the Fund's investments. A disciplined framework is used to analyse each sector and proposed investment to assess its risk. The portfolio is generally hedged to Australian dollars. However, any exposure to emerging markets debt issued in the local currency of the debt will generally be unhedged. Small active currency positions may also be taken when the Investment Manager believes that there are opportunities to add value or hedge risks in the portfolio.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Aust. Fixed Interest
Suggested investment timeframe	3 years
Relative risk rating	5 / Medium to High
Investment style	Income
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Cash & Investment Grade	20-100	100
Global High Yield	0-20	0.0
Emerging Markets Debt	0-15	0.0

Sector Allocation	%
Banking	28.8
Residential mortgage	11.2
Non-agency CMBS	5.6
REITs	5.5
Electric	5.1

Top Holdings	%
CBA	1.5
NAB	1.4
NAB	0.9
ANZ	0.9
Bank of America Corp	0.9
CBA	0.9
Sun Group	0.8
NAB	0.8
Westpac	0.8
Westpac	0.7

Regional Allocation	%
Australia	59.5
United States	22.7
UK	3.0
Europe Ex UK	7.0
Other	7.8

Investment Option Commentary

The Fund outperformed the benchmark in June. Despite the trade tension between the US and China continuing to simmer in the background, narrower credit spreads emanating from more dovish language from global central banks coupled with favourable supply and demand dynamics in the Australian credit market also helped drive outperformance. The Fund's long duration position also contributed to excess returns as bond yields rallied on a more dovish tone from central banks.

Market commentary

In June, the US Federal Reserve (Fed) 'met the market' with a more dovish tone which built on the support signalled by the European Central Bank (ECB), and drove risk assets to perform well. The S&P 500 reached all-time highs and bond yields rallied to lows not seen since late 2016.

A weaker economic outlook was met with an increase in the dovish tone emanating from global central banks. Global Purchasing Managers' Indexes (PMIs) were weak in the US, UK, EU, and Asia, along with US jobs data and US inflation missing expectations early in the month. Fed Chairman Powell indicated that they would 'act as appropriate to sustain expansion', while ECB President Draghi announced a new targeted longer-term refinancing operation and indicated that if a 'sustained return of inflation to our aim is threatened, additional stimulus will be required'. The Reserve Bank of Australia (RBA) minutes were similarly dovish, stating 'more likely than not that a further easing in monetary policy would be appropriate'.

Trade continued to be a major theme with an early breakthrough as Mexico and the US reached an immigration deal. The tension between China and the US heightened as we moved toward the G20, with China increasing tariffs on \$US60bn of US goods. However, positive rhetoric from President Trump indicated optimism on a deal as the G20 approached, and this was followed up with a statement that his meeting with Chinese President Xi Jinping on the last weekend of the month was 'excellent' and that the relationship with China was 'right back on track'.

Whilst equity markets reached all-time highs, credit market performance was generally positive but is still a long way from the tights in spreads following the global financial crisis. US investment grade (IG) spreads were 13bps tighter, ending June at 115, while US high yield (HY) spreads were 56bps tighter at 377. Physical IG had lagged other markets such as HY and equities in the rebound and rallied quite aggressively late in the month, with commercial mortgage-backed securities and bank loans modestly weaker over June

US IG issuance in June moderated to \$US86bn from \$US111bn in May. New issues in the financial sector included Goldman Sachs, Wells Fargo, Barclays, and Bank of America. In Australia, the primary market was dominated by financial, real estate and structured securities. Macquarie Bank, National Australia Bank, Standard Chartered and Barclays all issued senior debt. In the structured space, there were new issues from Kingfisher and Progress during the month. The Fund participated in the new issues from National Australia Bank, Barclays, Progress and Kingfisher.

Outlook

The more dovish stance continuing from global central banks, including the Fed, has been encouraging given the recent slowdown in global economic indicators, unresolved trade disputes, and escalating geopolitical tension. There is a limit to what support from central banks can do and given that risk assets are priced at spreads below historical averages, especially in the higher beta sectors, there is less urgency to add against this backdrop. Macquarie continues to believe there are opportunities to participate in credit markets with a strong risk management focus and a focus on avoiding names that may suffer from idiosyncratic risks.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1525AU
AMP Flexible Super - Retirement account	AMP1585AU
AMP Flexible Super - Super account	AMP1573AU
CustomSuper	AMP1525AU
Flexible Lifetime - Allocated Pension	AMP1537AU
Flexible Lifetime - Term Pension	AMP2018AU
Flexible Lifetime Investment (Series 2)	AMP2038AU
SignatureSuper	AMP1549AU
SignatureSuper Allocated Pension	AMP1561AU

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