Schroder Fixed Income

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To obtain exposure to a range of domestic and international fixed income assets with the objective of outperforming the Bloomberg AusBond Composite 0+Yr Index, whilst delivering stable absolute returns over time. The option adopts a Core-Plus investment approach whereby a core portfolio comprising of Australian investment grade bonds (including government, semi-government, supranational and corporate bonds) is complemented by investments in a diverse range of global and domestic fixed income securities. The targeted result is a defensive strategy which is broadly diversified with low correlation to equity markets.

Investment Option Performance

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

Investment Option Overview

Investment category	Fixed Interest
Suggested investment timeframe	3 to 5 years
Relative risk rating	Low to medium
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Aust. Investment Grade	99.99%	86.2%
Cash & Equivalents	0%	8.2%
Global Investment Grade	0%	2.2%
Australian High Yield	0.01%	7.2%
Global High Yield	0%	-3.8%

Sector Allocation	%
Cash & Equivalents	8.49%
Government	14.84%
Semi-Government	20.62%
Supranational/Sovereigns	20.94%
Corporates	24.64%
Subordinated	3.07%
Collateralised	7.39%

Top Holdings	%
QUEENSLAND TREASURY CORPORATION GOVTGUAR 3.25 21-JUL-2026 Dual 144a|Reg-S	3.09%
AUSTRALIA (COMMONWEALTH OF) 4.25 21-APR-2026 Reg-S	2.60%
INTERNATIONAL BANK FOR RECONSTRUCT 2.8 13-JAN-2021 (SENIOR)	2.19%
AUSTRALIA (COMMONWEALTH OF) 4.5 21-APR-2033 Reg-S	1.81%
TREASURY (CPI) NOTE 0.25 15-JAN-2025	1.81%
AUSTRALIA (COMMONWEALTH OF) 4.75 21-APR-2027 Reg-S	1.77%
NEW SOUTH WALES TREASURY CORP NONDMUNI 2.75 20-NOV-2025	1.76%
AUSTRALIA (COMMONWEALTH OF) 3.75 21-APR-2037 Reg-S	1.71%
TREASURY CORPORATION OF VICTORIA GOVTGUAR 3.0 20-OCT-2028 Reg-S	1.66%
NEW SOUTH WALES TREASURY CORPORATI 3.0 20-FEB-2030 Reg-S	1.44%

Quality Allocation	%
AAA	51.42
AA	17.20
A	6.86
BBB	18.81
Below BBB	-2.58
Cash & Equivalents	8.24
Not Rated	0.04

Portfolio Summary

The Schroder Fixed Income strategy returned 1.00% (before fees) over June, marginally behind the benchmark for the month, and 3.27% (before fees) over the quarter, 0.22% ahead of the benchmark. Relative performance for the month and quarter was aided by their long duration and yield curve positioning as yields fell, and by the extra income vs benchmark from their high-quality assets, however their exposure to Australian inflation linked bonds and their short position in global high yield were offsets. Over a year, the strong returns on the portfolio and benchmark have highlighted the potential value of duration based fixed income even at low yield levels.

Major positioning changes over the quarter included shifting longer duration in the US during May and June, to leave the net duration exposure of the portfolio 0.75 years longer than benchmark. The investment manager have also added to their high quality credit exposure by adding to Australian mortgages and corporates, but are retaining our defensive approach towards lower quality global credit. They are anticipating further economic weakness to drive both more central bank easing and higher risky asset volatility.

Market commentary

By the end of the quarter, the key focus of markets returned to central banks. The US Federal Reserve (Fed) and the European Central Bank (ECB) both indicated they expect to begin to ease policy soon. Risky assets, such as equities and credit, posted positive returns along with defensive assets, like government bonds, gold and Yen. While unusual for both asset groups to post similar positive performance, this was driven by the different time horizon focus of the asset groups during June. Defensive markets focused on the near term and the impact of the pending policy easing to keep cash rates low. Risky assets, however, focused more on the potential for easy monetary policy to support economic activity in the medium term. While global central banks talked about easing policy, the Reserve Bank of Australia (RBA) have acted and lowered the official cash rate to 1.0% from 1.5% by early July.

Outlook

Economies, policy settings and markets are now poised precariously. Markets expect central banks to ease, and that this will be sufficient to at least stabilise the global growth deceleration. Extreme outcomes – global recession, or alternately, a strong global rebound – do appear somewhat unlikely but there is plenty of room for variability, and limited room for policy error.

The portfolio's credit position is best summarised as being long in high quality Australian debt and short in lower quality global debt, which leaves us earning a small amount of extra carry versus the benchmark, but positioned to capture some of the likely widening in credit spreads as market volatility increases. While managing the respective sizes of these exposures as opportunities shift, the investment manager have also been seeking ways to maintain yield, diversify exposures and efficiently manage risk. This is a challenge as there are few pockets of value left, with any excess return on credit assets being largely driven by yield differentials, rather than capital appreciation, from here. Nonetheless, the investment manager have added to Australian RMBS, now at 7.5%, and are exploring allocations to US mortgages and Asian credit.

Altogether the portfolio stands ready to navigate what appears to be a difficult environment ahead with economies fragile, but little room for policy to disappoint expectant markets.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1288AU
AMP Flexible Super - Retirement account	AMP1376AU
AMP Flexible Super - Super account	AMP1505AU
CustomSuper	AMP1288AU
Flexible Lifetime - Allocated Pension	AMP1295AU
Flexible Lifetime Investment (Series 2)	AMP2040AU
SignatureSuper	AMP1302AU
SignatureSuper Allocated Pension	AMP1309AU

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