AMP Australian Bond

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

To provide a total return (income and capital growth) above the Bloomberg AusBond Composite 0+ Yr Index on a rolling 12-month basis. The portfolio invests primarily in Australian government bonds and credit securities and the portfolio may also invest in global fixed income securities, and derivatives in global fixed income markets, which may include a small exposure to emerging markets. Exposure to global fixed interest securities will principally be hedged back to Australian dollars.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	2 years
Relative risk rating	Medium
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)
Australian fixed interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	1.24
Australian Fixed Interest	97.23
Cash	1.53

Sector Allocation	%
Investment Grade Corporate	52.34
Developed (Non-US) Sovereign Debt	19.02
Government Agencies/Regionals	18.25
Agency MBS	7.44
Cash	1.53
ABS (Non-Mortgage)	0.92
High-Yield Corporate	0.50

Top Holdings	%
AUSTRALIAN GOVERNMENT	19.02
QUEENSLAND TREASURY CORP	4.06
TREASURY CORP VICTORIA	3.83
Banco Santander SA	2.05
BANK OF MONTREAL	1.90
Westpac Banking Corp	1.83
SOUTH AUST GOVT FIN AUTH	1.78
NEW S WALES TREASURY CRP	1.73
SUNCORP-METWAY LTD	1.67
TORONTO-DOMINION BANK	1.60

Quality Allocation	%
BBB	22.34
A	20.83
Treasury	19.02
Agency/Government	18.25
AAA	11.28
AA	6.24
Cash	1.53
BB	0.50
CCC	0.01

Fund Performance

The Fund posted a negative return for the March quarter and outperformed the benchmark (before fees). Both the conventional government bond component, managed by **Macquarie** (previously AMP Capital**)** and the inflation-linked component, managed by **Ardea,** outperformed their respective benchmarks.

Macquarie's performance was driven by rates and currency. Inflation detracted as US inflation continued to move higher, with lingering supply shortages from the pandemic now exacerbated by Russia's invasion of Ukraine. Carry contributed positively to performance, stemming mainly from overweight semi-government position.

Ardea's performance, similar to recent months, was aided by its bond-swap strategies over the quarter, although the gains began to moderate late in the period. Ardea's portfolio is underweight government bonds and overweight swaps in the short end of the curve, and overweight government bonds and underweight swaps in the long end of the curve, with a goal of capturing relative value in long-dated physical government bonds.

Market Review

Australian government bond yield movements mirrored those in the US in the March quarter, both in terms of cause and outcome. As in the US, Australian 4Q21 inflation rose strongly, prompting an upward movement in yields. At its first Board meeting of the year, the RBA acknowledged the rise in inflation, noting the "persistence of the disruptions to supply chains and distribution networks and their ongoing effects on prices". The central bank also announced an end to its bond purchase program, citing "faster-than-expected progress" towards its employment and inflation goals. Although domestic inflationary pressure has yet to accelerate to US levels, the 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 RBA held monetary policy steady at their March meeting after ending the bond purchase program at the previous meeting. The central bank continues to stress patience with inflation, distancing itself from the extremely high inflation in other developed markets, with domestic trimmed mean inflation only just returning to the midpoint of the target band. Nonetheless, the central bank's rhetoric has turned mildly hawkish, acknowledging that a hike in 2022 is plausible, albeit not their base case. Governor Lowe shifted the focus away from the Wage Price Index to labour costs. Labour data surprised to the upside again in February with the unemployment rate falling 0.2% to 4.0%. Whilst the invasion of Ukraine by Russia continues to introduce uncertainty into the global economy, markets appear to have shifted focus towards inflation and the actions of central banks, seeing several hikes priced for the RBA for 2022. It is unlikely the central bank shifts its rhetoric to meet these expectations.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP1048AU**
Flexible Lifetime - Investments (Series 2)	AMP1388AU**
SignatureSuper	AMP0738AU*
SignatureSuper - Allocated Pension	AMP1128AU*
SignatureSuper Term Pension	AMP1128AU*

*Closed to new investors

**Closed to new and existing investors

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