



Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 March 2023

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 0+ Yr Index / 40% - Bloomberg 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
Standard Risk Measure	4/Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Cash	0
Australian Fixed Interest	60
Global Fixed Interest	40

Actual Allocation	%
Global Fixed Interest	39.12
Australian Fixed Interest	60.84
Cash	0.03
Region Allocation	%
Australasia	99.97
Cash	0.03

Fund Performance

The Fund posted a positive return for the March quarter and outperformed the benchmark (before fees).

Within the Australian bonds sector, Macquarie outperformed its benchmark and was very strong in absolute terms. The manager continued to increase their tilt towards the semi-government sector in January and February, given relatively attractive yields on offer. This, combined with the portfolio's duration and curve positioning later in the period, aided outperformance.

Schroders also outperformed its benchmark and delivered a very strong absolute return. The manager's long interest rate exposure and recent shift to improve the credit quality of corporate exposures added value. During the quarter, the portfolio's duration was increased, taking advantage of volatility in yields, while reducing exposure to riskier fixed income assets.

Within the global bonds sector, PIMCO underperformed its benchmark, though still produced a solid absolute return. Sector and security selection towards the end of the quarter detracted from performance, particularly through selection within non-agency residential mortgage backed securities.

Market Review

Fixed income markets in the March quarter were defined by three distinct phases. Investors started the new year with a continuation of flows into the bond market on expectations rate hiking cycles may be drawing to an end. By the middle of the quarter, US inflation data, which appeared to have peaked months earlier, looked to be stickier than expected by some, with services inflation not yet declining as quickly as goods inflation. In addition, central banks reiterated their firm stance on higher rates for longer periods, thus yields climbed throughout the quarter, which largely offset the strong performance in January. However, the focus in March turned to stresses in the financial sector, with the sudden and seemingly idiosyncratic failures of US regional banks Silvergate, Silicon Valley and Signature. Concerns of broader contagion led to sharp spikes in volatility in both equity and bond markets, with bond yields collapsing and market participants aggressively reducing the expectation on the extent of future interest rate increases. US authorities promptly stepped in to assuage market concerns about the health of the banking sector, injecting significant liquidity, seeking to restore confidence and reduce contagion risks.

The following weekend, attention turned to Credit Suisse. The longstanding Swiss bank had endured in recent years a stretch of executive turnover, perceptions of a poor risk culture within its investment banking division, and large outflows from its wealth management business over more recent periods. Credit Suisse was subsequently taken over by Swiss rival UBS at a heavily discounted price, while the Swiss National Bank contributed CHF100 billion to ensure the deal went through, in an effort to prevent further contagion and maintain Switzerland's long-standing reputation as a safe and stable global hub for finance.

Credit investors started the year largely driven by the same sentiment as government bond investors, on expectations that the current rate rise cycle is drawing to an end. Credit spreads, the required compensation above the risk free rate, bottomed in early February and initially rose higher on central banks reaffirming their resolve to fight inflation, then spiked higher from the second week of March with the banking sector stress. Credit spreads ended the quarter slightly higher, albeit with relatively wild intra-month movements in March. Whilst the immediate concerns on the banking sector and its contagion effects appeared to have abated by quarter's end, investors were still expecting a higher premium for financials relative to the industrial and utilities sectors.

Global bonds, as measured by the Bloomberg Global Aggregate Index (\$A hedged), gained 2.38%, in Australian dollar terms. Global investment grade and high yield credit meanwhile gained 2.53% and 2.31% respectively, as measured by the Bloomberg Global Aggregate Corporate Index (\$A hedged) and Bloomberg Global High Yield Index (\$A hedged).

Outlook

Inflation, the path of interest rate movements and recession are likely to continue to be the dominant themes

driving bond markets over the medium-term. After long, drawn-out falls in bond prices in recent years, yields now have reverted to more attractive valuation levels. We therefore believe there is scope for improved returns from the asset class over the short to medium-term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 2)	AMP1991AU**
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Term Pension	AMP1977AU*

*Closed to new investors

**Closed to new and existing investors

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