



# Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 June 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](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Global fixed interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Standard Risk Measure</b>	4/Medium
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Cash	0
Australian fixed interest	60
Global fixed interest	40

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	41.99
Australian Fixed Interest	57.93
Cash	0.08

  

<b>Region Allocation</b>	<b>%</b>
Australasia	99.92
Cash	0.08

## Fund Performance

The Fund posted a negative return for the quarter and underperformed the benchmark (before fees)

Within the Australian bonds sector, Macquarie underperformed its benchmark and delivered a negative absolute return. Most of this underperformance was generated in June, amid rate volatility and a widening in credit spreads, which caused a natural increase in the Fund's duration.

Schroders also produced a negative absolute return and slightly underperformed its benchmark. The manager's long duration positioning relative to the benchmark was the main driver of the underperformance, as bond prices fell as previous fears around the banking sector faded and the global economy continued to surprise slightly on the upside.

Within the global bonds sector, PIMCO was negative in absolute terms, marginally underperforming its benchmark. Security selection aided performance towards the end of the period, though currency selection detracted from the return mid-quarter.

## Market Review

During the June quarter, fixed income markets experienced some further bouts of uncertainty subsequent to the turmoil from US regional bank failures in mid-March. Persistent inflationary pressures meanwhile continued, while central banks remained steadfast in their commitment to reining in inflation. While headline inflation receded in the quarter, core inflation displayed a resilient nature, both in the United States and Europe. Consequently, central banks responded by implementing further policy rate increases. The Fed raised rates by 25 basis points in May and projected the possibility of further rate hikes for the remainder of the year through their dot plot guidance. Similarly, the ECB enacted rate increases of 25 basis points in both May and June amid some resilient economic indications.

The elevated inflationary environment exerted pressure on sovereign bonds during the June quarter, as bond yields rose aggressively. US treasuries and German bunds experienced declines, albeit to varying degrees, while UK gilts encountered the most pronounced performance deterioration. This underperformance was driven by unexpected inflationary upticks in the UK, where the CPI inflation rate ranked highest among G7 nations, coupled with a 50 bps hike in June and a 25 bps hike in May by the Bank of England.

Against this backdrop, corporate balance sheets remained relatively strong, despite some uptick in default rates. Global high yield outperformed global investment grade, as immediate recessionary concerns were pared back a little. Global bonds, as measured by the Bloomberg Global Aggregate Index (\$A hedged), returned -0.30% over the quarter. Global investment grade and high yield credit meanwhile returned -0.38% and 1.56% 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 shorter to medium-term.

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## 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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