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December 2011

# AMP Capital Corporate Bond Fund - Off-platform Class H

## Investment objective

To provide a total return (primarily income with some capital growth) after costs and before tax, above the Fund's performance benchmark on a rolling 3 year basis.

## Minimum suggested time frame

3 years

## Fund description

The Fund is actively managed, investing primarily in investment grade rated corporate bonds in the Australian market. The Fund also has exposure to global bond markets.

## Performance benchmark

UBS Credit Index 0+ \*

## Inception date

29 Sep 2009

## Fund size

\$1,481.66 million

## Management costs

0.75%

## Distribution frequency

Monthly

## Buy/sell spread

+0.00/-0.25

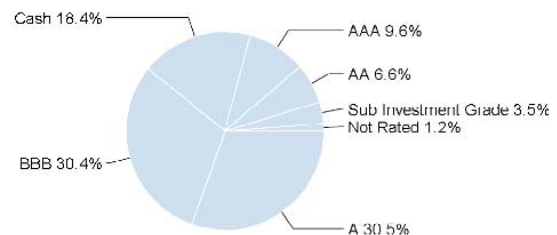
## Minimum initial investment

\$30,000

## Investment approach

The Fund primarily seeks credit securities from companies with strong management, and balance sheets that display characteristics such as sufficient liquidity and low levels of gearing. Diversification is achieved mainly through investment in securities across a range of industries such as financials, utilities and telecommunication providers.

## Asset allocation



## Performance – as at 31 December 2011

Inception Date – 29 Sep 2009

%	1 mth	3 mth	6 mth	1 yr	Incept
Benchmark	0.42	1.70	4.43	8.85	6.87
Total return - after fees	0.40	1.18	3.12	8.30	9.01

Past performance is not a reliable indicator of future performance. Performance is annualised for periods greater than one year.

Total returns are calculated using the unit price which uses the net asset values for the relevant month end. This price may differ from the actual unit price for an investor applying for or redeeming an investment. Actual unit prices will be confirmed following any transaction by an investor. Returns quoted are before tax, after Class 'H' fees and costs, assume all distributions are reinvested and are annualised for periods greater than one year. The benchmark for this Fund changed from the UBS Composite Bond Index (All Maturities) to the UBS Credit Index 0+ on 1 March 2011. Past performance of this Fund is reported using the UBS Composite Bond Index (All Maturities) up to 28 February 2011. Performance reported after 1 March 2011 uses the current benchmark, the UBS Credit Index 0+.

## Performance and Activity

The Fund underperformed its benchmark in the December quarter. Performance was largely driven by credit derivative hedges which gave back some of the gains seen in the September quarter. Credit markets remained volatile throughout the period with headlines out of Europe creating heightened uncertainty, eventually closing the quarter tighter on the back of increased policy support out of the European Central Bank (ECB) and firmer commitment and clarity from European policymakers. The Fund also held an underweight duration position relative to its benchmark for most of the quarter which led to some underperformance as the Reserve Bank of Australia started to ease monetary policy.

Corporate issuance broadly outperformed financials which continued to be affected by the increased uncertainty in markets. Within corporates, the better performers included overweights to Korean steelmaker Posco and Fairfax, while Sydney Airport and Goodman Industrial Fund detracted from performance. Within Financials, active underweights to Norwegian financial DNB, Dexia and BNP Paribas and an overweight exposure to longer-dated Westpac bonds were the relative outperformers, with subordinated financial issuance from Royal Bank of Scotland and AXA the main detractors.

Throughout the quarter, the Fund participated in a number of primary transactions. These were focused on adding corporate exposures over financials and included new issuance from Wesfarmers and Caterpillar bonds as well as in Woolworths hybrids. The Fund also added exposure to Rio Tinto, GPT Group and Westfield in derivative form, to take advantage of attractive spread levels after the recent weakness in markets. Secondary market activity in physical bonds centred around reducing exposure to higher-beta securities that were more susceptible to sustained market weakness, with a particular focus on subordinated financial exposures.

The Fund unwound part of its existing credit derivative hedge during the quarter, as signs of increased policy support in Europe were seen towards the end of the period. This was mainly done via reducing part of the Fund's index hedge to the US market as America's outlook started to improve. However, we remain cautious primarily due to the potential for headline risk in Europe over the coming months and continue to hold credit derivative protection as a precaution against a further deterioration in markets.

## Market commentary

The December quarter was characterised by ongoing volatility with headlines out of Europe continuing to dominate investor concerns. The quarter started off positively in both equity and credit markets on the back of hopes of a comprehensive and credible solution to the Eurozone crisis at the European Union summit held in late October. However the market soon began to question implementation risks and by mid-quarter credit spreads had widened again due to sustained market and political pressures in the Eurozone. Chief amongst these concerns were warnings of further sovereign debt ratings downgrades and continued ambiguity on the ECB's role in supporting sovereign bond markets. Ongoing deleveraging pressures in the financial system created increased short-term funding concerns across the banking complex which served to exacerbate and focus market concerns.

Sentiment improved towards quarter-end as investors started to focus on growing speculation of a more centralised fiscal governance structure in the Eurozone, which would clear the way for more aggressive ECB intervention. The announcement in late December that the ECB would make available longer-term financing for European banks helped credit markets rally into quarter-end as the increased tenor and access to liquidity helped to alleviate concerns of a 'tail-risk' event.

## Outlook

Technical factors are mildly positive for credit, but investors remain cautious. A return to positive mutual fund flows in the last quarter and a reduction in overall corporate bond issuance provided a supportive backdrop for credit markets. We continue to expect fund flows into investment grade credit to remain supportive in an environment of weaker economic growth. Valuations look attractive relative to default expectations and company fundamentals. While recent weakness in macroeconomic data and the potential for weaker earnings results may challenge some forecasts, particularly in Europe, valuations in many investment grade credits have moved ahead of this, pricing substantial liquidity premia into credit spreads. Bond issuance globally is also expected to fall, with negative net issuance expected within the financials sector in particular. However sovereign issuance is likely to increase in 2012 and central bank support via the long-term refinancing operation program and other unconventional measures will be needed. Banks will also utilise the covered bond markets more actively.

Fundamentals remain strong, but Europe and high yield will be challenged more in coming quarters. Companies have used the past two years to aggressively de-lever their balance sheets, reducing their reliance on debt to fuel earnings growth. Cash held by corporates, particularly amongst larger companies, are at record levels. An increased focus on costs has also had favourable impacts on margins, as has the lower yield environment. The pace of further improvements is likely to fall from here though, as supply-driven pressures (e.g. higher input costs) start to come through. Business confidence in Europe will likely remain dampened over the medium term as constrained credit growth reduces the access and availability of capital, and as austerity measures bite into economic growth.

## Asset allocation

%	Current
Domestic Credit Securities	69.91
Cash	18.36
Direct Global Credit Securities	11.73

The Fund accesses global credit securities directly by purchasing bonds in offshore markets and from offshore issuers.

Investors should consider the current product disclosure statement (PDS) available from AMP Capital Investors Limited (ABN 59001 777 591) (AFSL 232497) (AMP Capital) for the AMP Capital Corporate Bond Fund - Off-platform Class H (Fund) unit class before making any decision regarding the Fund. The PDS contains important information about investing in the Fund and it's important investors read the PDS before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. Neither AMP Capital, nor any other company in the AMP Group, guarantees the repayment of capital or the performance of the product or any particular rate of return. Past performance is not a reliable indicator of future performance. AMP Capital makes no representation or warranty as to the accuracy or completeness of any statement in this fact sheet including any forecasts. This fact sheet has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation, or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this fact sheet, and seek professional advice, having regard to the investor's objectives, financial situation, and needs.

### Top 10 holdings – as at 31 Dec 2011

Security Details	% Portf
WESTPAC BANKING CORP	3.02
GOLDMAN SACHS GROUP INC/THE	2.36
POSCO	2.16
SYDNEY AIRPORT FINANCE	2.04
MEDALLION TRUST	2.01
ROYAL BK OF SCOTLAND NV	1.96
COLONIAL FIRST STATE GLOBAL AS	1.78
COMMONWEALTH BANK AUST	1.69
LEIGHTON FINANCE LTD	1.68
POWERCOR AUSTRALIA LLC	1.50

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