AMP CAPITAL

THE CASE FOR INVESTING AMP CAPITAL CORPORATE BOND FUND

Investors' need for a reliable income is stronger than ever despite a growing number of challenges on the investment horizon.

Although moving further down the risk spectrum to term deposits may seem logical, they no longer offer the peace of mind they once did.

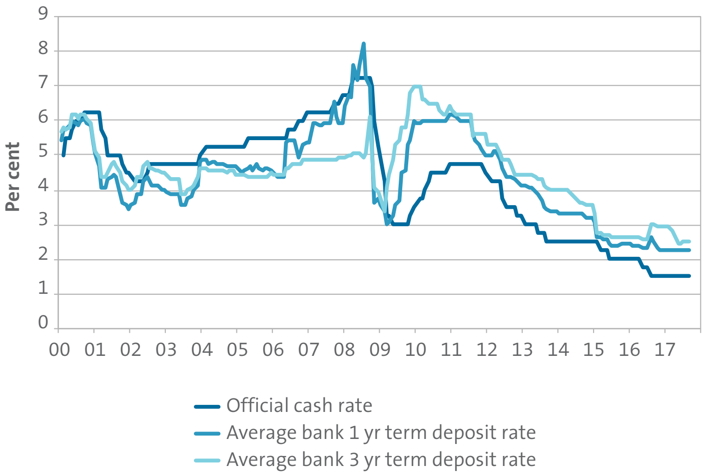
Interest rates are at historic lows and term deposit rates are expected to fall even further in Australia over the next 12 months in line with base interest rates.

These factors add up to a poor equation for returns on term deposits, suggesting they are unlikely to cover food, energy and other essential living expenses as inflation erodes already low returns.

Furthermore, regulatory issues have also emerged, leaving term deposits even less liquid under stricter capital requirements. Term deposit holders must give notice at least 31 days before maturity to break the arrangement or it automatically rolls over. The Australian government has also proposed taxing bank deposits in the future.

Competitiveness of term deposits continues to weaken

Interest rates are at historic lows

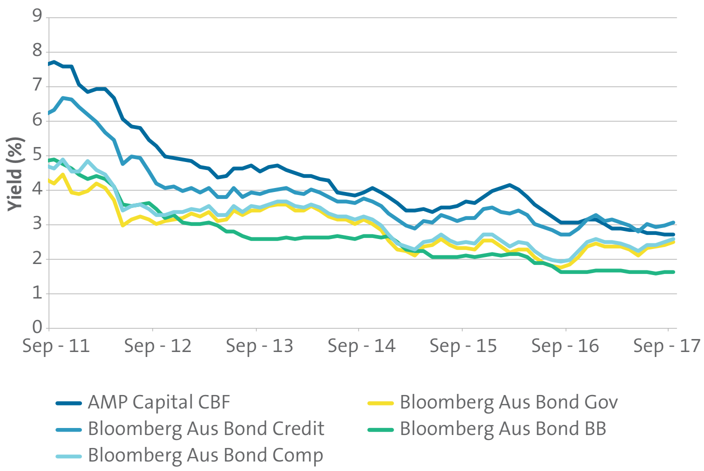


Source: RBA, AMP Capital. As at 30 September 2017

The AMP Capital Corporate Bond Fund offers a solution

The Fund's objective is to provide a consistent monthly income greater than the income from term deposits and government bonds whilst seeking to provide capital stability by investing in a portfolio of high-quality corporate bonds.

Comparison of yields over a 6-year period



Past performance is not a reliable indicator or future performance
Source: RBA, AMP Capital. As at 30 September 2017

There are a number of reasons the Fund may be suitable for clients in search of predictable income and capital preservation.

The distribution target is set out six months in advance, providing clients a clear line of sight over their income and their ability to meet their essential needs.

Also, the Fund offers an added layer of protection from falling interest rates. Its rates are market-linked so the impact of any future rate declines is already in the Fund's yield. This is not the case for term deposits.

In addition, our Fund is made up largely of investment-grade bonds, which are rated BBB, which is equivalent to Moody's BAA rating, and above. Investment-grade bonds carry far less risk of default than high-yield issues, yet deliver more yield than term deposits, although with a different risk profile to investing in term deposits.

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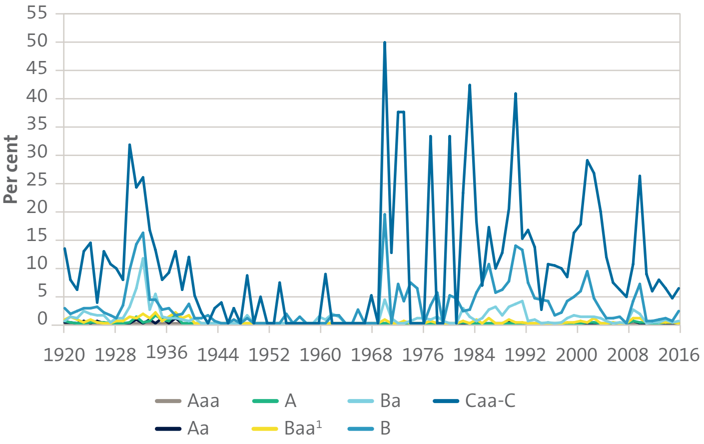
Annual issuer-weighted corporate default rates by letter rating 1920-2015



Past performance is not a reliable indicator or future performance
1. A Baa rating by Moody's is equivalent to a BBB rating by S&P or Fitch.
Source: Moody's, data provided by UBS

Top 5 ways the Fund actively manages risk

Our focus on investment-grade credit aims to deliver both capital stablility and income.

However, all investments carry risk and corporate bonds carry a level of risk higher than cash and term deposits. The Fund invests in corporate bonds, which means it is essentially lending money to companies for an agreed time and interest payment. The greatest risk a corporate bond investor faces is that the underlying company does not repay capital or interest on time or in full. It may even default. There is also the risk associated with interest rate movements and, with international investments, risks include losses related to currency exchange rates, hedging and changes in the state of the Australian and world economies.

While we cannot completely eliminate risk, our expertise enables us to use various levers to enhance the Fund's defensive properties.

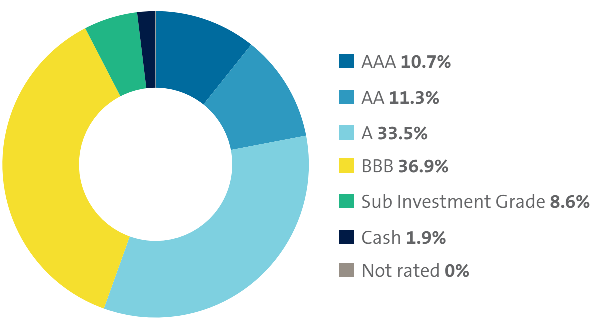
1. Our focus on investment-grade credit and tight restrictions on high-yield instruments are key to controlling risk

At least 90% of the Fund is made up of investment-grade credit issued primarily by Australian companies, the level we believe is best positioned to help investors meet their income needs while preserving capital.

While high-yield issues can be attractive, they carry far greater risk of default. For this reason, we limit the Fund's high-yield holding to less than 10% of the total portfolio.

These controls make ours a true-to-label bond Fund by taking every available opportunity to deliver a reliable monthly income stream and at least provide stable capital, if not grow it.

Predominantly invested in high-grade bonds



Source: AMP Capital. As at 30 September 2017

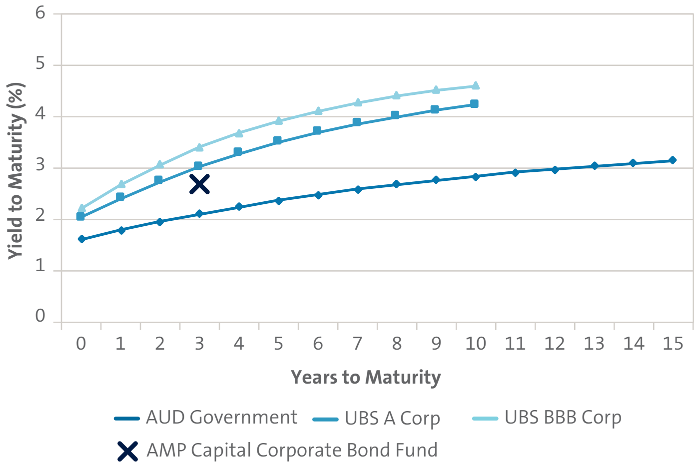
2. We prefer bonds with shorter durations

Shorter durations reduce the impact of interest rate changes.

This preference strengthens our true-to-label position by reducing risk and aligning with our objective of delivering predictable monthly income.

Shorter durations reduce the impact of interest rate changes

Yield curves as at 30 September 2017



Source: AMP Capital, Bloomberg

3. In times of market stress, we have room to move

We can increase the Fund's defensive properties by lengthening its interest rate duration and we can use credit default swaps to hedge against potential losses, another means of driving out risk.

4. The Fund holds more than 100 corporate bonds

The portfolio approach spreads the risk of default by a single company across the entire portfolio, a far safer option for those seeking reliable income than investing in individual corporate bonds.

This approach also expands the Fund's opportunity set.

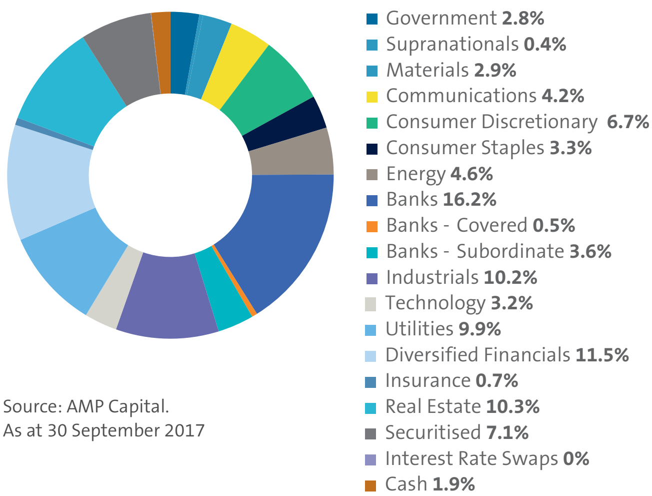
5. We invest in defensive industries and steer clear of emerging markets

The Fund invests in defensive industries such as utilities, financials, transport and telecommunications, which typically offer attractive yields and greater capital protection.

We steer clear of emerging markets or other sectors lacking the transparency the Fund requires, no matter how much attention these sectors may attract elsewhere.

Our insistence on transparency helps keep volatility in check, underpinning our key objective of delivering a reliable income stream.

Diversification across stable industries



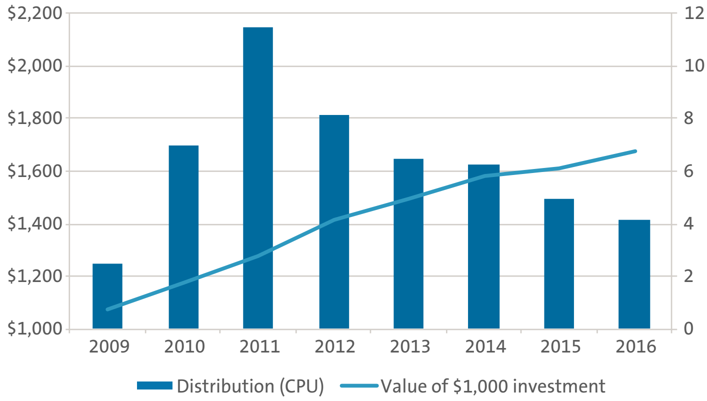
Source: AMP Capital.
As at 30 September 2017

Total average return since inception is 7.0%* after fees

The Fund has a track record of solid performance even in times of market turbulence, underpinning its objective of providing consistent, predictable monthly income. Since inception the Fund has met its objective of delivering monthly income. In addition the Fund has provided robust capital growth as shown below.

* Source: AMP Capital, Bloomberg as at 31 January 2017. As advisers/financial planners invest through an investment platform, this document quotes platform class A performance after the deduction of platform class A fees. Please refer to our website for performance figures for direct investment class H. Inception date of the Corporate Bond Fund is 23 June 2009. Performance is platform class A, annualised for periods greater than one year, after platform class A management fees and before taxes, and assumes all distributions are reinvested.

Solid track record of growth even in turbulent times



Past performance is not a reliable indicator of future performance
Source: AMP Capital. As at December 2016 . Returns shown are monthly since July 2009. Returns quoted are before tax, after retail class fees and costs and assume all distributions are reinvested.

The AMP Corporate Bond Fund blends predictability with flexibility to help clients meet their essential goals

With its objective of consistent, predictable income to help cover food, energy and other essential living expenses, we believe the AMP Capital Corporate Bond Fund is an attractive alternative for clients in or near retirement, a stage of life when clients need peace of mind.

Through skilled selection of high-quality, investment-grade credit across a range of defensive industries, the Fund has delivered greater returns than term deposits, albeit with a different risk profile. Furthermore, the Fund has paid a distribution every month since inception – a compelling combination for clients in search of reliable, meaningful income in a low-yield environment.

The case for Qantas Airways

With this security, investors have gained exposure to Qantas Airways' attractive cash flows while earning a robust coupon of 7.5% per cent per annum to June 2021.

Qantas is Australia's dominant airline. Together with its wholly owned budget carrier Jetstar, it has a leading share of the domestic market of about 63% and about 26% of the international market.

Lower oil prices have been a strong tailwind for Qantas. We purchased Qantas bonds near the peak of the bond market sell-off in October 2015, believing the company's credit metrics had already improved to levels commensurate with a 'BBB-' rating.

On 17 November 2015, Standard & Poor's raised Qantas' long-term credit rating to BBB- stable from BB+ stable. The decision took the market by surprise. Both bonds and credit default swaps rallied more than 20bps following the announcement, confirming our view of Qantas' corporate bond and its stronger credit metrics.

We upgraded our Investment Outlook from 'Outperform' to 'Buy' in January. As our scenario test suggests, Qantas will be able to meet the rating hurdles set by the rating agencies for BBB- credit in both 2016 and 2017 even if they decide to deliver 15% return to shareholders and the oil price normalises to US$65 a barrel by the end of 2017.

This example illustrates the expertise of our well-resourced team of analysts and portfolio managers who actively manage the AMP Capital Corporate Bond Fund.

CONTACT DETAILS

If you would like to know more about how AMP Capital can help you, please visit www.ampcapital.com

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