

Franklin Templeton Multi-Sector Bond

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To maximise total investment returns consisting of a combination of interest income, capital appreciation and currency gains. The benchmark for performance comparison purposes is the Bloomberg Barclays Capital Multiverse Index (hedged into Australian dollars). The option will seek to achieve its objective by investing primarily in a portfolio of fixed income securities and debt obligations (including convertible bonds) of government, government-related, securitised and corporate issuers worldwide. Sub-investment grade and non-rated exposure may be up to 50% of the portfolio and may take the form of emerging market debt or high yield credit exposure. The option may also invest in securities linked to the assets or currencies of any nation. The option may purchase foreign currency denominated fixed income securities, debt obligations, and may also invest in derivatives.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested Investment timeframe	3 Years
Relative risk rating	Medium
Investment style	Specialist - Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	79.40
Cash	N/A	20.60

Sector Allocation	%
International Government / Agency Bonds	86.24
Corporate Bonds	0.01
Sovereign Bonds	2.06
Convertibles	0.27
Derivatives	(1.68)
Cash & Cash Equivalents	13.10

Regional Allocation	%
Australia / NZ	0.00
Japan	10.92
Developed Asia (ex Japan)	0.00
Europe (ex-UK)	0.13
United Kingdom	0.00
North America	-1.39
Middle East & Africa	6.81
Emerging / Frontier Europe	0.00
Latin & South America	29.46
Emerging / Frontier Asia	30.88
Other	23.19

Top Holdings	%
Government of Indonesia, senior bond, FR61, 7.00%, 5/15/22	8.71
Korea Treasury Bond, senior note, 1.875%, 3/10/22	7.96
Letra Tesouro Nacional, Strip, 1/01/20	7.86
Bank of Thailand Bond, senior note, 1.82%, 8/27/20	5.08
Government of Mexico, senior note, M, 7.25%, 12/09/21	4.57
Government of Mexico, senior bond, M, 6.50%,	3.59
Bank of Thailand Bond, senior note, 1.95%,	2.71
Government of Ghana, 24.75%, 7/19/21	2.43
Nota do Tesouro Nacional, 10.00%, 1/01/27	2.24
Titulos de Tesoreria, senior bond, B, 7.50%,	1.52

Portfolio Summary

- The portfolio's positive absolute performance was primarily attributable to currency positions.
- The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets.
- Overall, Franklin Templeton continue to maintain low portfolio duration while aiming at a negative correlation with UST returns. Looking ahead, we anticipate wage and inflation pressures in the US to drive UST yields higher.

Investment Option Commentary

In the third quarter of 2019, interest-rate strategies detracted from the portfolio's absolute performance, followed by currency positions and overall credit exposures. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Select duration exposures in Latin America (Argentina) detracted from absolute results, as did negative duration exposure to US Treasuries. Amongst currencies, positions in Latin America (the Argentine peso and Brazilian real) detracted from absolute performance, as did positions in northern European currencies. However, the portfolio's net-negative position in the euro contributed to absolute results. Amongst credit exposures, the portfolio's exposure to sub investment-grade sovereign credits detracted from absolute performance.

Market Commentary

The third quarter of 2019 started out with risk assets around the world largely extending their summer rallies in July as the US Federal Reserve and European Central Bank headed further into dovish territory. However, escalating trade tensions between the US and China during early August sparked another round of heightened risk aversion across global financial markets that led to volatility in risk assets and rallies in perceived safe havens. Those trends moderated in September as risk aversion diminished. The US dollar broadly strengthened against a majority of global currencies during the period, with some notable exceptions. Sovereign bond yields declined sharply across much of the world during the quarter, but backed off their late-August low points in September.

Outlook

A number of factors are currently shaping financial markets, notably including geopolitical risks and trade tensions, populism and political polarisation, unrestrained deficit spending in the developed world, low rates and underappreciated inflation risks, and overvaluations in many risk assets. Financial markets remain vulnerable to a number of risks associated with these factors, in our view. In emerging markets, Franklin Templeton continue to see a subset of countries with domestically strong economies that have demonstrated their resiliencies to global shocks, including potential trade disruptions. Franklin Templeton continue to maintain low portfolio duration and negative duration exposure to longer-term US Treasuries. They also continue to hold select local-currency positions in countries that they view as having healthy or improving fundamentals, along with attractive risk-adjusted yields.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1851AU
AMP Flexible Super - Retirement account	AMP1871AU
AMP Flexible Super - Super account	AMP1867AU
CustomSuper	AMP1851AU
Flexible Lifetime - Allocated Pension	AMP1855AU
SignatureSuper	AMP1859AU
SignatureSuper Allocated Pension	AMP1863AU
SignatureSuper Select	AMP1859AU

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