BlackRock Global Bond

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To generate capital and income return for investors seeking exposure to international fixed income markets, including Australia. The option aims to outperform the Bloomberg Barclays Global Aggregate Index (Australian dollar hedged) over rolling three-year periods. The option invests predominantly in international debt securities and foreign currency exposures. These include a broad universe of investment instruments, including fixed interest securities, mortgage securities, asset-backed securities, derivatives, repurchase agreements, stock lending and units in pooled investment funds.

Investment Option Performance

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

Investment Option Overview

Investment Category	Global Fixed Interest
Suggested Investment timeframe	5 years
Relative risk rating	4 / Medium
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
International Fixed Interest and Cash	100	100

Sector Allocation	%
Government	54.70
Corporate	23.90
Securitised	21.58

Regional Allocation	%
UK	4.31
Europe (ex UK)	28.97
North America	41.78
Japan	13.42
Asia (ex Japan)	1.01
Other	10.51

Quality Allocation	%
AAA	34.47
AA	15.09
A	30.71
BBB	13.81
BB>	0.33
Not Rated/Cash	2.59

Portfolio Summary

BlackRock increased the Fund's overall overweight duration exposure over the month. This was primarily through their US duration exposure which was rotated from a tactical underweight into an overweight. They retain their preference to the short end of the US yield curve. Within the eurozone, they remain underweight Germany and France duration, with overweight exposure in Italy government bonds. BlackRock have also moved to an outright underweight position in UK gilts at the belly of the curve (previously a flattener). They retain their overweight to the long end of the Japan yield curve. In developed market currencies, they reduced their short to the US dollar, while they also remain short the euro and long the Japanese yen.

In emerging markets, they have increased their overweight exposure in Chinese local currency bonds, and also remain overweight in select areas of local currency debt elsewhere including Brazil, Mexico and Russia. They have also rotated much of their long emerging market currency exposure to the Chinese renminbi, while reducing their long positions from areas such as Indonesia and Brazil. Within spread assets, they have been gradually reducing their Investment Grade credit exposure into strength. Their overall spread asset exposure is currently being maintained through Agency MBS where market liquidity dynamics are favourable.

Investment Option Commentary

The Fund underperformed its benchmark (before fees) over November driven by its emerging market strategies.

Within BlackRock's emerging market strategies, the main detractors included their overweight local currency bond positions in Brazil, Mexico and India. The long South African rand and Indian rupee positions both also detracted. Their overweight to emerging market hard currency bonds partially offset negative returns.

BlackRock's developed market currency exposure also detracted. The main detractor was the long Japanese yen vs US dollar position that they have in the portfolio as a hedge, while their short euro bias also detracted.

Macro rates strategies detracted over the month in aggregate. They overweight to Italian government bonds was the main detractor, while the overweight in Japan duration also detracted. There overweight US duration positioning from the middle of the month made a positive contribution.

The Fund's credit exposure added positively. This was driven by their overweight positions in USD denominated senior financials and investment grade industrials, while the credit protection strategy detracted from returns.

Outlook

In BlackRock's view, US Treasuries are likely to be range-bound going into the beginning of 2020. They see scope for the post-July collapse in term premium to reverse with their base case scenario of an initial US China trade deal while frontend rates remain well anchored by the Fed's forward guidance.

Turning to Europe, the resumption of asset purchases by the ECB supports their overweight position in select European assets. A relatively steep yield curve – particularly in non-core countries – could benefit euro area investors.

Finally, in emerging markets, BlackRock remain tactical and they favour owning select countries given the attractive yield profile. They are running a diversified allocation across countries where they feel comfortable with the fundamental backdrop given elevated geopolitical uncertainty at the country-level.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1102AU
AMP Flexible Super - Retirement account	AMP1338AU
AMP Flexible Super - Super account	AMP1467AU
CustomSuper	AMP1102AU
Flexible Lifetime - Allocated Pension	AMP1107AU
Flexible Lifetime - Term Pension	AMP1111AU
Flexible Lifetime Investment	AMP1116AU
Flexible Lifetime Investment (Series 2)	AMP1403AU
SignatureSuper	AMP1113AU
SignatureSuper Allocated Pension	AMP1142AU

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