

Franklin Templeton Multi-Sector Bond

Quarterly Investment Option Update

31 December 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	5 Years
Relative risk rating	4/ Medium
Investment style	Specialist - Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	82.24
Cash	N/A	17.76

Sector Allocation	%
International Government / Agency Bonds	83.44
Corporate Bonds	0.00
Sovereign Bonds	0.69
Derivatives	-1.90
Cash & Cash Equivalents	17.76
Other	0.01

Regional Allocation	%
Australia / NZ	0.00
Japan	0.00
Developed Asia (ex Japan)	0.00
Europe (ex-UK)	0.00
United Kingdom	0.00
North America	0.00
Middle East & Africa	4.10
Emerging / Frontier Europe	0.00
Latin & South America	30.47
Emerging / Frontier Asia	43.39
Other	22.04

Top Holdings	%
Korea Treasury Bond, senior note, 1.875%, 3/10/22	8.86
Letra Tesouro Nacional, Strip, 1/01/20	6.79
Government of Indonesia, senior bond, FR61, 7.00%, 5/15/22	6.29
Government of Mexico, senior note, M, 7.25%, 12/09/21	5.13
Bank of Thailand Bond, senior note, 1.82%, 8/27/20	4.26
Government of Mexico, senior bond, M, 6.50%, 6/09/22	4.09
Government of India, senior note, 8.83%, 11/25/23	3.48
Government of India, senior note, 7.72%, 5/25/25	3.37
Bank of Thailand Bond, senior note, 1.95%, 11/26/20	2.97
Government of Ghana, 24.75%, 7/19/21	2.53

Portfolio Summary

- The portfolio's positive absolute performance was primarily attributable to interest-rate based strategies.
- The portfolio held negative duration exposure to US Treasuries contributed to absolute performance, as did select duration exposures in Latin America.
- Further, currency positions in Latin America (the Brazilian real) and Asia ex Japan contributed to absolute performance, as did positions in northern European currencies.

Investment Option Commentary

In the fourth quarter of 2019, interest-rate strategies contributed to the portfolio's absolute performance. Currency positions detracted from absolute results, while overall credit exposures had a largely neutral effect. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Negative duration exposure to US Treasuries contributed to absolute performance, as did select duration exposures in Latin America. Amongst currencies, the portfolio's net-negative position in the euro detracted from absolute results, as did its net-positive position in the Japanese yen. However, currency positions in Latin America (the Brazilian real) and Asia ex Japan contributed to absolute performance, as did positions in northern European currencies.

Market Commentary

Sovereign bond yields largely continued to rise across much of the world during the fourth quarter of 2019, trending further away from the low points reached during the third quarter. The yield on the 10-year US Treasury note finished the period 25 basis points higher at 1.92%. On the currency front, the US dollar broadly weakened against a wide range of developed and emerging market currencies during the quarter. The US and China appeared to reach agreement on a "phase one" trade deal. The potential resolution boosted market sentiment in December, driving risk asset valuations higher in several markets across the globe.

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. 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. They 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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