

BlackRock Global Bond

Quarterly Investment Option Update

30 June 2020

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

Sector Allocation	%
Government	31.41
Corporate	36.94
Securitised	32.39
Other	-0.74

Regional Allocation	%
UK	1.97
Europe (ex UK)	25.36
North America	64.05
Japan	1.97
Asia (ex Japan)	2.05
Other	4.60

Quality Allocation	%
AAA	33.60
AA	10.14
A	24.50
BBB	28.04
BB>	7.50
Not Rated/Cash	-3.78

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

Portfolio Summary

The Investment Option outperformed its benchmark over the second quarter (gross of fees), driven by its overweight exposure to fixed income assets in areas of credit and emerging markets.

Within credit strategies, the main contributors included the fund's overweight exposure to securitized assets, investment grade industrials and select high yield names. Within industrials, overweight exposure to communications, energy and capital goods names have outperformed. The fund's overweight to senior financials and investment grade utilities have also added to returns over the period.

Emerging market strategies also added well to performance with an overweight allocation to emerging market hard currency debt being the key contributor. Select overweight allocations in emerging market local currency debt also contributed, most notably from Mexico. This was partially offset by an overweight exposure to China government bonds. In contrast, emerging market currency positioning detracted overall, driven by a long Mexican peso bias.

Macro rates strategies posted negative returns in aggregate. An underweight US duration exposure and US curve flattening bias detracted from returns, as did Japanese yield curve positioning. Negative returns were partially offset by off-benchmark allocation to US inflation-linked bonds along with overweight exposure to Italian government bonds. Additionally, an underweight allocation to Germany duration contributed over the period. Developed market currencies also posted negative returns. A long Japanese yen vs short US dollar position detracted from returns, partially offset by a short Canadian dollar bias.

Investment Option Commentary

The second quarter was broadly characterised by a rebound in investor sentiment following a historic sell-off in the second half of the first quarter. Financial markets came to terms with the economic fallout from stringent lockdown measures implemented globally and took comfort from the assortment of stimulus measures delivered by central banks and governments alike. GDP growth prints meanwhile gave a stark reminder of the impact that lockdowns are starting to have on the real economy.

Central banks have leaned towards a 'whatever it takes' mantra, both in terms of policy action and rhetoric. The US Federal Reserve (Fed) has announced further expansions to several of its existing facilities and added yet more, this time targeted at small and medium sized businesses specifically. The European Central Bank (ECB) announced an expansion of its Pandemic Emergency Purchase Programme (PEPP) by €600 billion to bring the total size to €1350 billion, while the European Commission has proposed a €750 billion Recovery Fund split as €500 billion in grants and €250 billion in loans to members of the bloc worst hit by the crisis such as Italy and Spain. In Japan the Cabinet delivered a second significant supplementary budget worth 6.2% of GDP, increasing the 2020 government budget deficit to 14.9% and representing the largest fiscal stimulus in decades.

Riskier assets rallied across asset classes and regions to pare back much of the losses from the first quarter. Spreads in investment grade, high yield and emerging markets ended the quarter only modestly wider from where they had started the year given the second-quarter rally. Energy prices also rallied with Brent crude prices rising 81% to end the quarter at US\$41.15 a barrel on the back of fresh supply cuts from OPEC+ and pockets of demand returning as lockdown measures were eased globally. Developed market government bond yields were generally range-bound given the countering forces of significant debt issuance to fund large fiscal packages and ultra-accommodative easing from central banks.

Outlook

The coronavirus shock is accelerating structural trends in inequality, globalization, macro policy and sustainability. This is fundamentally reshaping the investment landscape and will be key to investor outcomes going forward. The Fund Manager is monitoring three signposts to understand how economies can recover from this crisis: how successful economies are at restarting activity while controlling the virus spread; whether stimulus is still sufficient and reaching households and businesses; and whether any signs of financial vulnerabilities or permanent scarring of productive capacity are emerging. Markets are laser-focused on changes in any of these three "known unknowns," and a possible second wave of infections and policy fatigue are major risks in the second half of the year.

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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