

BlackRock Global Bond

Quarterly Investment Option Update

30 September 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:

www.amp.com.au/performance

Investment Option Overview

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

Sector Allocation	%
Government	38.77
Corporate	32.70
Securitised	28.78
Other	-0.25

Regional Allocation	%
UK	2.01
Europe (ex UK)	22.68
North America	54.23
Japan	1.74
Asia (ex Japan)	10.19
Other	9.15

Quality Allocation	%
AAA	34.62
AA	8.05
A	21.40
BBB	25.21
BB>	8.41
Not Rated/Cash	2.31

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

Portfolio Summary

The strategy outperformed its benchmark over the third quarter. In a quarter of more positive sentiment, out performance was led by the pro-risk exposure in areas of credit and hard currency emerging markets debt.

Within credit strategies, the main contributors included the overweight exposure to securitized assets, select high yield names and investment grade industrials. Within industrials, an overweight exposure to communications, technology and consumer cyclical names were the main contributors.

Emerging market strategies were another pillar of outperformance with the overweight allocation to emerging market hard currency debt being the key contributor. In contrast, the select overweight allocations in emerging market local currency debt marginally detracted.

Macro rates strategies contributed positively to excess returns in aggregate. Duration exposures in Australia, Europe and the UK were positive contributors along with an overweight exposure to Italian government bonds. Developed market currencies also contributed to the out-performance including a long position in the euro.

Investment Option Commentary

The second quarter rebound in sentiment continued into the third quarter with areas of riskier assets either paring back their losses entirely, or indeed ending the year-to-date period in positive territory in aggregate. This subsided somewhat in September amid concerns around policy fatigue and the sustainability of the pick-up in economic activity. Several Covid-19 vaccines are in the later stages of development but the timing – both in terms of final production and widescale distribution – remains unclear, and there is clear evidence of a second wave with infections in several countries now, most notably in Europe.

Economic data has generally continued to still show signs of recovery, not least in China where September manufacturing and services PMI's showed a further acceleration in economic activity. Significantly, the improvement in manufacturing surveys was largely driven by new export orders which recorded their largest monthly jump since August 2017. In Europe, while the recovery in countries like Germany and Italy remains resilient, early signs have emerged of the impact from the resurgence in virus cases in areas such as Spain where economic activity is contracting once more. In the US the labour market continues to show signs of improvement despite 'fiscal fatigue' starting to crystallize as some aspects of labour market support begin to expire.

One of the most significant market moves over the quarter came in currencies with the US dollar depreciating 3.6% (DXY, broad-based dollar). Investor appetite for European assets given reduced risk premia and the newly coordinated fiscal efforts in Europe have seen the dollar decline significantly at the expense of an appreciating euro. Developed market government bond yields were generally range-bound to lower over the quarter, while euro-zone peripheral spreads compressed tighter on positive policy developments. Riskier assets more broadly enjoyed another strong quarter with spreads in some areas of US Investment Grade now tighter relative to their pre-Covid-19 levels. Emerging market hard currency debt and high yield also posted positive returns.

Outlook

The US election is taking place against a historic backdrop of a pandemic, recession and domestic discord. The outcome could have significant implications for key policy areas: fiscal stimulus, public investment, taxation, regulation and foreign affairs. It also has the potential to accelerate structural trends such as increased policy and market focus on sustainability. The market disruption caused by Covid has also accelerated the two most important structural dynamics the investment manager follows today: (i) the tech-driven redistribution of corporate cash flows and (ii) the demographic-led demand for yield. In today's environment, from a bottom up perspective, they are seeking out the companies that are most sustainably investing in innovative capital expenditure, and in research and development. More specifically, they are looking to invest in companies that have developed business models placing them on the 'right side' of technological disruption, and that makes their cash flows durable in both a Covid and post-Covid world.

In terms of the strategy's positioning, the investment manager expects a diverse mix of "middle-quality" fixed income assets, with yields in the mid-single digits, to likely perform well in the year ahead, particularly if paired with adept security selection that accounts for the structural trends described above. They see such opportunities in parts of the high yield bond market both in Europe and in US. In fact, they think that nowadays there is not enough return potential in the highest-rated parts of fixed income to warrant a meaningful allocation. They are also comfortable taking positions in securitized assets and emerging market countries today, but again, through a filter of intense security selection, and generally at the higher quality ends of the spectrum.

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

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267



What you need to know

This publication has been prepared by AWM Services Pty Limited ABN 15 139 353 496, AFSL No. 366121 (AWM Services). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying investment manager only and not necessarily the views of AMP Limited ABN 49 079 354 519 (AMP Group). No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information.

The investment option referred to in this publication is available through products issued by N.M. Superannuation Proprietary Ltd ABN 31 008 428 322, AFSL 234654 (NM Super), AMP Capital Funds Management Limited ABN 15 159 557 721, AFSL 426455 (AMPCFM) and/or ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac). Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement (PDS) for the relevant product, available from the issuer or your financial planner.

Any advice in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner. In providing any general advice, AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in. The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither NM Super, AMPCFM, ipac, AWM Services, any other company in the AMP Group nor the underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document, unless expressly stated in the PDS. Past performance is not a reliable indicator of future performance. Any slight asset allocation deviations from 100% may be caused by rounding, asset categorisation and/or hedging.