

AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

The strategy is designed for investors with higher risk tolerances and who want income returns exceeding Australian bank bill rates over the long term by investing in global debt and fixed income securities. It implements a global, multi-sector strategy investing in a broad range of fixed income securities. The strategy may hold corporate bonds, government bonds, asset-backed securities, mortgage-backed securities, closed and open-ended mutual funds (up to 5% of the assets) and bank loans located anywhere in the world, including developed and emerging countries. Up to 40% of the strategy's assets may be higher risk and rated below investment grade. The strategy intends to hedge to Australian dollars most of the foreign currency exposures of its debt and fixed income securities, however up to 10% of the strategy's net asset value may be exposed to the risks and returns of international currencies.

Derivatives may be used to manage risk exposures, invest cash and gain or reduce investment and currency exposures. Derivatives will not be used for leveraging or gearing purposes.

Investment Option Performance

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

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	91.6
Australian Fixed Interest	N/A	5.9
Cash	N/A	2.5

Sector Allocation	%
Investment Grade Corporates	39.0
Global Sovereign	17.9
Securitised	14.2
Emerging Markets	10.7
High Yield Credits	9.5
Other (inc. Derivatives & Currency)	8.8

Regional Allocation	%
North America	43.5
Europe (excl. Great Britain)	22.4
Other (incl. Supranationals)	14.9
Great Britain	6.9
Japan	6.5
Australia & New Zealand	3.9
Latin America	1.9

Top Holdings	%
AB SICAV China Bond	3.2
Canada Housing Trust No. 1 1.95% 12/15/25	2.4
Australia Bond 2.75% 06/21/35	2.0
Canada Housing Trust No. 1 1.8% 12/15/24	1.5
EIB 4.75% 08/07/2024	1.2
Nordic Invest Bank 4.75% 02/28/24	1.2
Australia Bond 3% 03/21/47	1.1
Colombia Note 5.75% 11/03/27	1.1
Sth Korea Note 1.125% 09/10/25	1.0
Province of Ontario Note 3.1% 08/26/25	1.0

Portfolio Summary

It remains important for fixed-income investors to be selective given tightening financial conditions. Rising trade tensions and tighter financial conditions signpost a step down in the pace of global growth.

Investment Option Commentary

Sector/security selection contributed most to relative outperformance during the quarter. This was primarily the result of allocations to investment-grade corporates in the US, eurozone, UK and Australia. Exposure to eurozone and US high-yield corporates also added. Further boosting returns were the investment manager's allocations to US credit risk-transfer securities (CRTs), commercial mortgage-backed securities (CMBS) and quasi-sovereigns. Exposure to emerging-market (EM) sovereigns and corporate bonds also contributed.

Currency decisions were positive. Their short position in the US dollar contributed, as the currency fell against most EM currencies and all developed-market (DM) currencies. This was offset by their long positions in the euro.

Country/yield-curve positioning detracted, largely because of their positioning in the US and Australia. These losses were partially offset by their long position in UK duration as yields fell in December, reflective of a weakening UK economic outlook due to the sharp acceleration in COVID-19 cases and a relatively hard Brexit deal.

Market Commentary

Fixed-income markets charged ahead in the fourth quarter, following the announcement of several highly effective vaccine treatments for COVID-19, along with significant macroeconomic developments, such as the passage of another fiscal stimulus program in the US and a last-minute resolution of Brexit trade negotiations between the UK and the European Union. The initial rollout of vaccines boosted investor confidence, even as the number of cases accelerated, leading to renewed lockdowns and restrictions. DM short-term interest rates remained firmly anchored as central bankers reiterated that monetary policy will remain accommodative well into the future—supported by central bank bond-buying programs—fueling investor demand for credit-risk assets.

Government bond returns were negative in the US, Australia and Canada as rates rose and yield curves steepened based on rising inflation expectations. The 10-year US Treasury yield increased by 23 basis points (b.p.) to 0.92%, while equivalent maturity rates increased by 18 b.p. in Australia to 0.97%, and by 12 b.p. in Canada to 0.68%. Government bond rates in Italy and Spain rallied as yield curves continued to flatten from the success of the European Central Bank's (ECB's) bond-buying program. Italian 10-year bond yields fell by 33 b.p. to end the year at 0.54%, Spanish 10-year bond yields were 21 b.p. lower at 0.04%, and 10-year German Bund rates fell 5 b.p. to (0.57)%. Rates also fell in the UK by 4 b.p. to 0.19%, while interest rates on 10-year bonds in Japan rose 1 b.p. to 0.02%.

EM local-currency government bonds outperformed DM government bonds, largely driven by the currency component as the safe haven US dollar fell sharply against all major DM and the vast majority of EM currencies amid the risk-on tone. EM hard-currency sovereign and corporate bond excess returns were also strong over the quarter, with the bulk of the positive performance coming from below-investment-grade bonds. EM returns were buoyed by much higher commodity prices—Brent crude oil prices advanced by 21%, and copper prices gained 16% during the quarter. Gold rose less than 1% after a sharp advance earlier in 2020.

DM non-government bonds outperformed government bonds, led by the robust returns of high-yield corporate bonds. Investment-grade corporate bonds and agency mortgage-backed securities also provided significant outperformance. Among securitized assets, CMBS experienced a strong rebound as delinquencies stabilized.

Outlook

The investment manager expects the global economy to rebound strongly in 2021 after a challenging winter battling the pandemic. Highly effective COVID-19 vaccines have led investors to be optimistic that the global economy will power ahead in the new year. However, the slower-than-anticipated rollout of vaccines combined with new and seemingly more contagious mutations of the virus could create headwinds to economic normalization in the coming months.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP2027AU
AMP Flexible Super - Retirement	AMP2022AU
CustomSuper	AMP1997AU
Flexible Lifetime - Super	AMP1997AU
Flexible Lifetime - Allocated Pension	AMP2002AU
Flexible Lifetime - Investments (Series 2)	AMP2036AU**
SignatureSuper	AMP2007AU
SignatureSuper Select	AMP2007AU
SignatureSuper - Allocated Pension	AMP2014AU

**Closed to new and existing investors

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