

BlackRock Global Bond

Quarterly Investment Option Update

31 December 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	5 / Medium to high
Investment style	Core
Manager style	Single Manager

Sector Allocation	%
Government	40.23
Corporate	23.71
Securitised	29.33
Cash FX & Other	6.73

Regional Allocation	%
UK	2.18
Europe (ex UK)	23.10
North America	52.50
Japan	1.80
Asia (ex Japan)	2.45
Other	17.97

Quality Allocation	%
AAA	31.19
AA	9.17
A	19.43
BBB	22.83
BB>	8.30
Not Rated/Cash	9.08

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

Portfolio Summary

The investment option outperformed its benchmark over the quarter on the back of further positive sentiment in financial markets. The outperformance was driven by its pro-risk exposure in areas of credit and emerging markets. Within credit strategies, the main contributors included an overweight exposure to securitized assets, select high yield names and investment grade industrials. Within industrials, an overweight exposure to communications and technology names outperformed.

Emerging market strategies also added well to performance with the fund's overweight allocation to emerging market hard currency debt being the key contributor. In addition, select allocations in emerging market local currency debt contributed, most notably from an overweight to Mexico sovereign debt. Emerging market currency positioning contributed overall, driven by a long Mexican peso position.

Macro rates strategies posted positive returns. An underweight to US duration, off-benchmark allocation to US inflation-linked bonds and overweight to Eurozone peripheral debt including Italy and Greece added to returns over the quarter. In addition, an underweight exposure to UK inflation-linked bonds and underweight to Germany duration contributed, as did an overweight to Canada duration. Positive returns were partially offset by the US yield curve positioning and overweight to Australian government bonds. Developed market currencies posted negative returns, led by a long position in the Japanese yen. This was partially offset by short positions in the US dollar, euro, Canadian dollar and Swiss franc.

Investment Option Commentary

Financial markets ended the year with another strong quarter of performance in risk assets, capping off a remarkable turnaround from the first quarter of 2020. Vaccines against Covid-19 from Pfizer, Moderna and AstraZeneca were each shown to be highly effective in trials, with rollout programmes commencing across several key major economies such as the US and in Europe. Economies around the world do however remain burdened with rising rates of infection and hospitalizations, with fresh lockdown measures introduced once more. Joe Biden won the contest for the White House in the US, while the UK and the EU agreed to terms of a trade deal just days before the 31 December 2020 deadline.

Risk assets once enjoyed another strong quarter across the board. Emerging market assets led the way, supported not just by positive vaccine developments and further policy support from developed markets, but also by a weaker US dollar and higher commodity prices. The dollar lagged its G10 peers alongside the Japanese yen given the risk-on moves. Similarly, commodities enjoyed a stronger quarter on optimism around global demand given renewed vaccine hopes. Brent Crude, for example, rallied 26.6% over the quarter. Credit spreads also compressed, with high yield outperforming investment grade. In developed market government bonds, US Treasury yields sold off on the back of the Election outcome and the positive vaccine news, while government bond yields were range-bound in other areas such as the UK, Germany and Japan.

Outlook

Thanks to historic stimulus – both from central banks and governments - in reaction to the onset of the pandemic, the real economy that is emerging from this crisis has a tremendous amount of underappreciated momentum. They think that the path of fiscal policy, and its timing, could have an important impact on the economies and they estimate that the level of real GDP through the end of 2021 could potentially vary by several percentage points depending on the degree of fiscal stimulus enacted.

In terms of positioning, BlackRock remains comfortable holding a moderately pro-risk stance, particularly if paired with adept security selection. They see opportunities in parts of the high yield market both in Europe and in the 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 rating spectrum.

Nonetheless, BlackRock are cognisant that there are a range of potential risks for economic growth and financial markets globally. These include potential downside short-term risks to economic activity from newly implemented lockdown measures and the risk of policy fatigue from governments, despite central bank's commitment to remain accommodative. They consistently run the portfolio through a broad range of stress tests to ensure that all their positions are deliberate, that they put on hedges where appropriate, and ultimately to mitigate tail risks.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1467AU*
AMP Flexible Super - Retirement	AMP1338AU*
CustomSuper	AMP1102AU*
Flexible Lifetime - Super	AMP1102AU*
Flexible Lifetime - Allocated Pension	AMP1107AU*
Flexible Lifetime - Term Pension	AMP1111AU*
Flexible Lifetime - Investments (Series 1)	AMP1116AU**
Flexible Lifetime - Investments (Series 2)	AMP1403AU**
SignatureSuper	AMP1113AU*
SignatureSuper - Allocated Pension	AMP1142AU*

*Closed to new investors

**Closed to new and existing investors

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