AMP

AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31 December 2021

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	6 / High
Investment style	Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	87.9
Aust. Fixed Interest	N/A	9.6
Cash	N/A	2.5

Sector Allocation	%
Investment Grade Corporates	40.2
Global Sovereign	25.6
Securitised	10.6
High Yield Credits	9.6
Other (inc. Derivatives & Currency)	7.2
Emerging Markets	6.9

Regional Allocation	%
North America	44.6
Europe (excl. Great Britain)	25.2
Australia & New Zealand	12.4
Other (incl. Supranationals)	8.5
Great Britain	6.7
Latin America	1.3
Japan	1.2

Top Holdings	%
Canada Housing Trust No. 1 1.95% 12/15/25	3.9
Italy .95% 09/15/2027	3.7
Australia Bond 5.75% 07/15/2022	2.2
Australia Bond 2.75% 06/21/2035	1.7
Australia Note 1% 12/21/2030	1.5
Australia I/L Bond 3% 09/20/2025	1.1
KfW Bond 5% 03/19/2024	1.0
International Bank for Reconstruction & Development Note 2.2% 02/27/2024	1.0
Oesterreichische Kontrollbank Note 3.2% 08/25/2025	1.0
Australia Bond 4.25% 04/21/2026	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

Country/yield-curve positioning was negative, mostly the result of our duration exposure in Australia, which had a negative effect, led by our positioning in October as yields rose. Although the Reserve Bank of Australia (RBA) has abandoned yield curve control, the central bank has pushed back on the aggressive rate hike profile priced in, and yields have therefore subsequently rallied in November from the elevated levels seen at the end of October, which offset some of the quarterly losses. Long duration position in the US detracted as yields rose over the month, led by the Fed announcing a substantial shift in policy, reducing each month's bond purchases, starting in mid-January, and projecting three rate hike increases in 2022. A long duration position in the UK also weighed on returns as yields rose as the Bank of England (BoE) hiked rates in December.

Sector/security selection did not materially impact relative performance. The fund's exposure to inflation-linked securities contributed as Australian and US breakevens generally widened over the period. Exposure to credit risk–transfer securities (CRTs) was also a contributor as the returns were overall positive, benefiting from a number of factors, including smaller-size issuance by the agencies, rating upgrades, and investors' drive to diversify their holdings while tapping into strong fundamentals and the recovery of the US housing market.

Currency positioning was neutral. The fund's tactical short position in the US dollar in November contributed as the currency underperformed, while the long position in Russian ruble in October was also additive as the currency posted positive returns. However, the outperformance was partially offset by the short position in the Taiwan dollar as the currency appreciated over the period.

Market Commentary

The fourth quarter ended what has been a volatile year. Multi-decade high and persistent inflation, the continued growth rebound, and the highs and lows around the spread of coronavirus pandemic variants were front and center of investors' minds. In response, central banks have started to pivot toward tighter monetary policy. The pivot is not uniform since policy viewpoints and inflation shocks vary. In DM, the Fed announced and then accelerated the tapering of its asset purchases, paving the way for rate hikes in 2022. The Bank of Canada ended its asset purchases altogether and—after weeks of deliberation—the BoE hiked its benchmark interest rate in December. By contrast, the European Central Bank (ECB) is taking gradual steps toward tighter policy, announcing it will halt its pandemic emergency purchase programme in March 2022. But that announcement falls short of true policy tightening because the ECB will step up purchases by the asset purchase programme through October. The RBA also remains accommodative.

In the fourth quarter, global DM treasury nominal returns rose 0.10%, as measured by the Bloomberg Global Treasury Index on a hedged basis, while global inflation-linked bonds returned 3.10% on inflation concerns. Yield curves in DM generally flattened as shorter maturity yields rose the most in response to less accommodative central banks. Longer-term yields were mixed. For example, they rose in Australia but fell in Canada and the UK. In the US, 10-year US Treasuries were mostly unchanged. Risk assets varied. High-yield corporate bonds rose the most in the US but were flat in the eurozone. Securitized credit—CRTs, commercial mortgage-backed securities (CMBS) and collateralized loan obligation (CLOs)—performed well, benefiting from investors' need for yield and diversification. Emerging-market (EM) debt declined as local-currency assets underperformed hard currency and high yield trailed investment grade. The asset class was adversely affected by several idiosyncratic country events, while local-currency assets in particular were hit by ongoing US-dollar strength, EM inflation (which remained high and sticky), and EM central banks, which continued to hike rates. Within investment-grade corporates, US issuers advanced, while euro bonds declined in absolute terms.

Outlook

The COVID-19 pandemic has been the dominant driver of the global economy over the past two years, and that looks set to extend into the first part of 2022. While it is, sadly, not new for the pandemic to dominate the

near-term outlook, the way in which the virus is likely to affect the global economy has evolved over time. In its initial stages, COVID-19 was largely a demand shock. Economic activity screeched to a halt as people retreated into their homes. Consumption plummeted and policymakers had to scramble to preserve household incomes to allow families to socially distance while still meeting their basic needs. At this point, however, the demand shock is far in the past. Fiscal policy provided massive support to household income, especially in the US, and when society was able to reopen, the demand side of the economy came roaring back, boosted by the combination of fiscal stimulus and monetary accommodation.

As 2021 turned to 2022, the pandemic became a supply shock. Global supply chains have proven more fragile than expected, and businesses have struggled to source raw materials and other important inputs, especially for manufactured goods. Health, safety and childcare concerns, as well as topped-up household savings accounts, have allowed workers to be choosy about when they will rejoin the labor force and at what rate of compensation, leaving businesses scrambling to attract employees and to meet their wage requirements.

With demand robust and supply constrained, prices have risen. Inflation has reached levels not seen in decades, and there is little reason to expect near-term relief. Supply chains remain snarled, labor remains in short supply and COVID-19 continues to impose restrictions on business activity in some parts of the world. It is going to take time for the global economy to fully reboot, and the omicron variant looks likely to extend the horizon to normalcy even further. In the meantime, price pressures are likely to persist.

That leaves policymakers in an awkward position. Because central bankers around the world were forced to respond aggressively to the initial demand shock, global monetary policy is extremely accommodative. With prices surging, very low policy rates and economic growth robust in many DM countries, the persistence of quantitative easing is no longer appropriate. But can central banks tighten conditions without pushing the economy into sluggish growth? How quickly and by how much can they raise rates without triggering disorderly moves in financial markets? Those are the questions that will dominate 2022, and the manager expect to get preliminary answers in the first quarter as the biggest central banks in the world start to tighten policy.

The investment manager’s outlook for the year reflects a belief that tighter monetary policy will have an impact on the global economy, particularly with fiscal support waning. AB expect growth to slow significantly from the heady levels of 2021, driven largely by tighter monetary policy and the fading of fiscal support. While AB’s forecast for global growth remains above the long-term trend in 2022, they expect that growth to be front-loaded. By the second half of the year, AB expect most major economies to have decelerated to their long-term potential, and think the risk is that 2023 will see growth even slower than that. The good news is that the decline in growth will be accompanied by decreasing price pressures. The investment manager expect inflation to stay elevated in the early part of the year, but as the year progresses and demand moderates, healing should take hold in the global supply chain, allowing price pressures to ease as the year moves along.

Availability

Product Name	APIR Code
SignatureSuper*	AMP2007AU
SignatureSuper - Allocated Pension*	AMP2014AU

*Closed to new investors

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