AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31-March-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP2022AU
AMP Flexible Super – Choice (Super)	AMP2027AU
CustomSuper	AMP1997AU
Flexible Lifetime – Allocated Pension	AMP2002AU
Flexible Lifetime – Super	AMP1997AU
SignatureSuper	AMP2007AU
SignatureSuper – Allocated Pension	AMP2014AU
Flexible Lifetime Investment (Series 2)	AMP2036AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

Overview

Aim & 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 or fixed income securities. It implements a global, multi-sector strategy investing in a broad range of debt securities. The strategy may hold corporate bonds, government bonds, asset-backed securities, mortgage-backed securities, and bank loans located anywhere in the world, including emerging countries. Up to 40% of the strategy's assets may be high risk and rated below investment grade. The strategy intends to hedge its foreign currency exposures to Australian dollars. Derivatives may be used to manage risk exposures, invest cash and gain or reduce investment exposures. Derivatives will not be used for leveraging or gearing purposes.

Investment category: Global bonds

Suggested Investment Timeframe: 5 years

Standard Risk Measure: 3/ Low to medium

Investment category: Specialist

Asset Allocation	Actual (%)	Range (%)
Global Bonds	98.9	0 - 100
Cash / Other	1.1	0 – 5

Holdings

Industry Exposure	%
Global Sovereign	47.7
Investment Grade Corporates	30.1
Emerging Markets	10.8
Securitised	6.3
High Yield Credits	3.9
Other (incl. Derivatives & Currency)	1.1

Regional Exposure	%
North America	33.9
Europe (excl. Great Britain)	29.2
Australia & New Zealand	11.0
Latin America	5.6
Japan	5.2
Great Britain	4.4
Other (incl. Supranationals)	10.7

Top Ten Securities	%
Australia Bond 5.75% 07/15/2022	4.86
US Treasury Inflation Index .125% 04/15/2020	3.70
Japanese Government CPI Linked .1% 03/10/26	2.52
Italy Bond 3.75% 05/01/2021	2.38
Spain 144A Bond 4.1% 07/30/2018	2.19
Korea 10yr Bond Futures Jun17 06/20/2017	1.77
Mexico Bond 10% 12/05/2014	1.71
US Treasury Inflation Index .125% 04/15/2021	1.55
Poland Bond 2.5% 07/25/2027	1.52
Nordic Investment Bank 3.5% 02/28/2018	1.37

Market Commentary

Fixed-income markets had mixed performance in March, amid increased global political uncertainty and the widely anticipated rate hike from the US Federal Reserve. Emerging-market (EM) debt continued to rally, as investors shrugged off oil-price weakness caused by growing US crude inventories offsetting OPEC production cuts. Instead, EM debt investors, focused on bright spots such as accelerating trade and waning inflationary pressures. High yield was a laggard. The sector had its largest drawdown in 14 months ahead of the mid-March Federal Open Market Committee (FOMC) meeting because of heavy supply, outflows and falling oil prices, though it did regain much of this lost ground in the second half of the month. Within the global treasury space, European yields underperformed, while in the US there was some volatility as US yields rose meaningfully in the lead-up to the FOMC meeting before also retracing their steps.

The Fed raised its benchmark interest rate 0.25% in just its third hike since the financial crisis, a move that had been well telegraphed and was universally expected by the market. However, investors paid close attention to the FOMC's accompanying commentary and responded well to what they perceived to be dovish comments regarding inflation and unchanged rate-hike estimates for this year and next. Meanwhile, the European Central Bank (ECB) and central banks in New Zealand, Australia, Japan and England all kept rates on hold. On the back of the Fed's rate action, the US dollar lagged against most developed and EM currencies, including the Mexican peso, Russian ruble, British pound, Japanese yen and euro. There were some exceptions, as the dollar strengthened relative to the New Zealand dollar (its central bank expressed concern about the strength of the currency), Norwegian krone (linked to negative oil-price action) and South African rand (increased political uncertainty around the removal of the country's finance minister).

Dutch voters' rejection of far-right candidate Geert Wilders in national elections was positively received by euro-area investors. The markets had viewed this election as the latest in a series of European political events that would gauge the level of populist and anti-European Union (EU) sentiment ahead of the upcoming presidential election in France. After the result in the Netherlands, the market's estimate of a Marine Le Pen victory decreased somewhat, alleviating a bit of the geopolitical uncertainty. In the UK, Prime Minister Theresa May formally triggered Article 50, starting the two-year countdown for the country to fully cease its membership in the EU.

Investment Option Commentary

Currency selection was the largest contributor to relative performance, thanks mostly to gains from our overweight position in the Mexican peso. Beneficial overweights in the Indian rupee, Argentine peso and Russian ruble also added to returns.

Sector/security decisions helped to drive outperformance in the month, owing to positive returns from our exposures to eurozone investment-grade corporates and treasuries, as well as several very modest contributors across a range of sector/security positions.

Country/yield-curve positioning also contributed in March, as gains from our positions in Poland, Australia and Mexico more than offset losses from positioning in South Africa and the eurozone.

Outlook

Our US inflation forecast for 2017 is materially higher than that priced in by the market and therefore we keep a big position in inflation-linked securities.

We kept our overall credit exposure stable, still liking financials. Given the improved growth outlook, steeper yield curve, being at later stages in the regulatory burden push and close to the end of supply for most banks; our outlook on financials is still favourable.

We slightly increased US duration in favour of small deductions to peripheral Europe, the UK and Germany. Overall duration remains conservative, a little over 2.5 years with a current yield of 3.5%.

We still are very constructive on the Australian bond market both outright at the front-end and relative to other countries in longer maturities, meaning we have close to 29% of the portfolio invested in AUD denominated bonds.

Within EM we increased our South African and Brazilian position where we are more constructive on the market outlook. The political upheaval saw a cabinet reshuffle. This led to cheaper bond prices of which we took advantage by adding to our position.

In Europe, the upcoming French Presidential election is by far the biggest risk event on this year's European political calendar. But while uncertainty has increased in recent weeks, the probability that National Front leader Marine Le Pen will win has not risen materially, in our view, and should therefore still be seen as a relatively low probability event. That said, an extreme right-wing President of France would rock Europe to its very core—much more so than Brexit—so it's a scenario that needs to be taken very seriously. We feel that French sovereign spreads may be pressured wider as we get closer to the election date. At that time, we expect a market friendly outcome in which case we would continue to run a long position in Italy to benefit from the relief rally.

The main themes we are positioning for: US and, to a lesser extent, Japanese inflation to surprise on the upside; Selective local EM to benefit from falling inflation and more accommodative monetary policy than the market is currently pricing in (Brazil, South Africa); Financials to continue to recover some of the underperformance versus other industries; USD securitized bonds to benefit from cheap valuations versus other spread sectors and improved US growth outlook.

We expect volatility to persist and political events may be the swing factors more so than economic growth. As such, we will continue to be active in our risk allocation and if we feel that the markets get too much good or bad news priced in, we will act accordingly.