BlackRock Global Bond

Quarterly Investment Option Update

31-March-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1338AU
AMP Flexible Super – Choice (Super)	AMP1467AU
CustomSuper	AMP1102AU
Flexible Lifetime – Allocated Pension	AMP1107AU
Flexible Lifetime – Investments (Series 1)	AMP1116AU
Flexible Lifetime – Investments (Series 2)	AMP1403AU
Flexible Lifetime – Super	AMP1102AU
Flexible Lifetime – Term Pension	AMP1111AU
MultiFund Flexible Income Plan	AMP1119AU
SignatureSuper	AMP1113AU
SignatureSuper – Allocated Pension	AMP1142AU

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.

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Overview

Aim & Strategy: To generate capital and income return for investors seeking exposure to international fixed income markets, including Australia. The portfolio aims to outperform the Barclays Global Aggregate Index (Australian dollar hedged) over rolling 3 year periods. The portfolio invests predominantly in international debt securities and foreign currency exposures. These include a broad universe of investment instruments, which may include some or all of the following:

- Any fixed income security, negotiable instrument, note or other debt instrument issued or guaranteed by a central or regional government (or their agencies), corporation or supranational body.
- Mortgage securities including fixed rate mortgage pools and pass-throughs, adjustable rate mortgages ("ARMS"), collateralised mortgage obligations ("CMOs"), and other transferable mortgage securities, including structured products.
- Cash, receivables, time deposits (term deposits), certificates of deposit, commercial paper, treasury bills, discount notes and other money market securities.
- Asset-backed bonds.
- Repurchase agreements or stock lending on any eligible investments.
- Any instrument whose value is derived from eligible physical instruments, cash or currency exposures. Such instruments include, but are not restricted to, futures, options, interest rate swaps, cross currency swaps, index swaps, credit swaps, credit default agreements and forward currency exposures.

Units in any managed or pooled investment vehicle provided that the vehicle's list of eligible investments do not include any instruments outside the portfolio's eligible investments.

Investment category: Fixed Interest – Enhanced Fixed Interest

Suggested Investment Timeframe: 2+ years

Relative Risk Rating: Low to medium

Investment Style: Active

Asset Allocation	Benchmark (%)	Range (%)
Australian/ International Fixed Interest and Cash	100	0-100

Holdings

Industry Exposure	%
Treasuries	55.66%
Government Related	11.63%
Corporates	18.57%
Securitized	14.71%
FX	-0.88%
Cash Securities	0.32%

Regional Exposure	%
US	40.44%
Japan	18.13%
Germany	5.50%
France	6.13%
UK	5.74%
Italy	3.76%
Canada	3.40%
Other	16.90%

Market Commentary

The synchronisation of the global economic recovery and politics dominated market sentiment over the quarter. Despite continued improvement in the global macro backdrop bond yields finished out the period much where they started due to an over-emphasis on political risk.

The year kicked off on a high, as the global reflation trade gathered momentum with bonds selling off and equity markets reaching historical highs. On 26 January, 10- and 30-year gilt yields hit the second highest mark since Brexit, with the French equivalent scaling a one-year peak, as animal spirits took hold of investors Ten weeks after his surprise election victory Donald Trump was inaugurated as the 45th President of the United States on 20 January. Trump's policies during his first few weeks in office were more consistent with a protectionist stance than a reflationary one, igniting concerns that rising protectionism could damage global trade. Consequently, the consensus view that there will an increasing emphasis on fiscal policy wavered over the month with the "Trump trade" (higher growth and inflation) retracing somewhat towards month end. Bond yields began to retrace some of their gains post 26 January as investors questioned the timing and scale of any fiscal stimulus in the US.

Investment Option Commentary

US: The US 10-year Treasury closed the quarter slightly lower, dropping 4bps from 2.43% to 2.39%. As widely expected, the Federal Reserve increased interest rates by 25bps to a target rate of between 0.75% and 1% at its meeting on 15 March. The market reacted not to the rise in rates, which was 100% priced in, but to the dovish tone. In particular, the lack of increase in the 2017 and 2018 "dots" which many had expected would show a chance of four hikes in 2017 and something more than three hikes for 2018. In Yellen's press conference, she leaned on the three-hike pace in 2017 and reinforced the message of "gradual".

The economic backdrop was broadly positive over the quarter, with inflation up and unemployment down. The unemployment rate dipped to a low 4.7% in February, down from 4.8% the previous month. Additionally, more people began looking for jobs, taking the proportion of people working or looking for work to the highest level in nearly a year.

Consumer confidence was positive over the quarter; the Conference Board's index of consumer confidence continued to make new cycle highs reaching 125.6 in March; the strongest reading since December 2000. The expectations component reached 113.8, the highest level since September 2000.

Coming into quarter end, there was some slowdown in momentum, with the flash March US manufacturing purchasing managers index fell to 53.2 from the final February reading of 54.2. Driving the number lower was a slowdown in employment, especially in the service sector where job creation is at a three-year low. Backlog orders are starting to fall, which is a negative for future hiring. In another sign of slowing, manufacturers' inventories are also being cut.

February headline and core consumer price inflation (CPI) came in at expectations, rising 0.1% and 0.2% month-on-month respectively. This lifted headline year-on-year CPI to 2.7%, which is the highest level since March 2012. The year-on-year core number eased back slightly to 2.2% from 2.3% the previous month.

Eurozone: Heading into the quarter, the global reflation trade gathered momentum with bonds selling off and equity markets reaching historical highs. Yields on 10-year debt in Germany hit a six-week high on January 26, with the French equivalent scaling a one-year peak, as animal spirits took hold of investors. However, yields gave back some of their gains post-26 January as investors began to question the timing and scale of fiscal stimulus in the United States. In March, Trump's failure in passing his healthcare bill - one of the centerpieces of his election campaign - raised fresh doubts about the president's ability to muster sufficient support for other reforms.

Despite the broadly positive economic picture, ongoing political risk i.e., elections in Holland, France and Germany, uncertainty around Brexit and concerns that President Trump's policies will negatively affect the global economy overshadowed improving economic fundamentals. Going into the final leg of the quarter, the Dutch election on 15 March dominated market sentiment. Germany's 10-year bond yield fell from 14-month highs on the eve of the election, as investors flooded back into safe-haven debt. However, the fragmented nature of Dutch politics - more than 20 parties were on the ballot - always made the low countries an unlikely next candidate for a populist surprise. Sure enough Dutch Prime Minister, Mark Rutte, beat anti-EU populist challenger, Geert Wilders, into first place.

With the Dutch election out of the way, markets view France's presidential vote as the next potential electoral shock. A victory by the far-right candidate Marine Le Pen could, in the worst-case scenario, result in the unwind of the single currency and redenomination. Adding to election jitters, on March 14 - less than six weeks before the first round of voting on April 23 - Republican presidential candidate, Francois Fillon, was put under a formal fraud investigation.

Spreads between French and German bond yields widened to levels not seen since the European sovereign debt crisis. Perhaps unsurprisingly, the number of investors expecting the eurozone to lose at least one-member state in the coming months has increased; the Sentix Euro Break-up Index indicates that one in every four investors now believes that at least one eurozone member state will quit the single currency in the next 12 months. France and Italy have joined Greece as likely exit candidates.

Political noise aside, Europe continues its upward trajectory, with the European economy growing at its fastest clip in six years in March, according to the flash eurozone purchasing manufacturers' index. At the same time, flash surveys for the eurozone's two largest economies, Germany and France, also registered near six-year highs. In more good news, the sick man of Europe, Greece, has agreed with its lenders on key labour reforms and spending cuts bringing it closer to a deal that would enable it to receive the next tranche of its €86bn bailout, without which it will be unable to make €7bn of debt redemptions due in July.

Given the ongoing positive data, surprisingly, the European Commission's monthly sentiment survey was essentially flat in March at 107.9 points versus 108.0 in February. However, it remains well above its long-term average of 100 and the figures point to the eurozone's strongest quarter since 2011 before Greece started to fall apart.

The European Central Bank left key interest rates unchanged over the quarter. The bank is unlikely to raise rates in the near future after small tweaks in messaging at its 9 March meeting - it cut a reference to being ready to act with all available instruments - led to surging yields as markets priced in an interest rate hike in early 2018, raising the specter of surging borrowing costs for eurozone peripheral nations. The bank also left its bond buying program unchanged and pledged an extension until at least the end of the year, citing weak inflation figures.

United Kingdom: Heading into the quarter, the global reflation trade gathered momentum, with bonds selling off and equity markets reaching historical highs. On 26 January, 10- and 30-year gilt yields hit the second highest mark since Brexit (1.53% and 2.16% respectively). However, yields retraced their gains post-26 January as investors began to question the timing and scale of fiscal stimulus in the United States. In March, President Trump's failure in passing his healthcare bill - one of the centerpieces of his election campaign - raised fresh doubts about the president's ability to muster sufficient support for other reforms. The UK 10-year bond yield finished the quarter 10bps lower to close out at 1.14%, while the 30-year fell 9bps from 1.81% to 1.73%. Breakeven inflation fell over the period, with the 30-year breakeven rate falling by 6bps to 3.42%.

Nine months after the historic referendum on EU membership, Brexit has formally begun. Prime Minister Teresa May triggered Article 50 on March 29. This "irrevocable" notification started the countdown of a two-year negotiation period, after which the UK will secede from the EU.

The UK economy, although mixed, continues to surprise to the upside, with both the International Monetary Fund and the Bank of England (BoE) revising up their respective growth forecasts for the UK in 2017. The services industry is the backbone of the UK economy and consumers urge to spend has proven remarkably resilient post-Brexit, with retail sales picking up again in February after declining in the first month of the quarter. According to the Office for National Statistics, in February, sales volumes were up 1.4% compared with January and by 3.7% versus February 2016. In value terms, there were also strong increases. In February, consumer price inflation exceeded the BoE's target for the first time since late 2013 rising to 2.3% versus expectations of 2.1% and up sharply from January's 1.8%. Core inflation, which excludes items which can suffer from volatile price movements such as food and energy, came in at 2% versus 1.7%. These inflationary pressures are forcing shoppers to spend more on essentials according to the British Retail Consortium, which reported signs of weakening demand for more expensive items.

In the three months to February food spending was up 0.6% year-on-year, while non-food spending fell by 0.4%; the first quarterly drop in more than five years. With the backdrop of rising inflation, households seem to be bracing themselves for the tougher conditions ahead. Markit's monthly Household Finance Index for March showed expectations for finances over the next 12 months dropping to 45.3 from 48.1, its lowest level since November 2013. Broad measures of consumer confidence remain solid, however. The inflationary headwinds were also evident in February's purchasing manufacturers' index (PMI). Although all three sectors - services, industry and construction - remain in growth mode, there has been a slowing in momentum. This slowdown is particularly evident within services, the economy's largest sector, which saw activity slow to a 5-month low with input costs rising at their fastest rate in eight and a half years.The employment picture is mixed, with strong employment tempered by weak wage growth. Figures for the three months to January confirmed employment stands at record highs (74.6%), very low unemployment (4.7% versus 5.1% a year earlier), yet tepid wage growth (2%). Pay growth, adjusted for inflation, halved to just 0.7%, the lowest since October 2014 and private sector ex-bonus pay has not changed since September. On current trends, it won't be long before prices outpace pay. Despite the rise in inflation, the BoE kept its benchmark rate unchanged at 0.25% over the quarter. In its inflation report released in February, the central bank revised down its inflation expectation for the UK. The two-year year inflation forecast dropped to 2.56% from 2.7% and the three-year forecast to 2.36% from 2.49%. BoE Governor Mark Carney said he expected inflation to exceed the bank's 2% target only temporarily and due to the fall in sterling, rather than more deep-seated price pressures. However, given little sign of economic slowdown, the monetary policy committee appears to be getting restive, with one member voting for a rate increase and others remarking that it will not take much more news about rising inflation or growth for them to follow suit. In the United States, the Federal Reserve raised rates at their meeting on March 15 by 25bps to between 0.75 and 1%.

Japan: Japan entered the first quarter of the New Year buoyed by the global reflation trade. Expectations of monetary policy divergence weakened the yen and helped lift energy prices, both of which are supportive of inflation in Japan. Heading into February, the global reflation trade and weakened yen caused 10-year Japanese government bond (JGB) yields to rise to the highest point in around a year. As an emergency measure to stem the rise, the Bank of Japan (BoJ) conducted an unplanned buying operation of 10-year JGBs in a bid to keep the yield below 0.11%. Economic data over the quarter was mixed but, in aggregate, points to a slowly improving economy as the weak yen and stronger global economy have boosted exports, which jumped by 11.3% in value terms year-on-year in February; the third consecutive month of growth. The purchasing manufacturing index (PMI) has remained above 50.0 - the level that indicates growth - for seven successive months. Flash data for March signals the average reading over the first quarter is the highest since the first quarter of 2014, indicating solid growth momentum. Japan's unemployment fell to 2.8% in February, the lowest in over 22 years. However, domestic wage growth and consumption remain tepid. Consumer spending, which accounts for more than half of Japan's GDP, shrank 3.8% year-on-year in February, as the weaker yen pushed up the cost of imports. Japan's core consumer inflation, which excludes fresh food but does not exclude energy, recorded the second consecutive month of growth in February, up by 0.2% after 12 months of contraction, mainly as a result of surging energy costs. However, consumer prices, excluding volatile items such as food and energy, recorded lower growth at 0.1% (versus 0.2% in January). The BoJ's target rate for core inflation is 2%, which it forecasts reaching in fiscal year 2018. The BoJ kept its monetary easing program unchanged over the period, while the Federal Reserve (Fed) raised its key interest rate by 25bps to a target range of between 0.75% and 1% on March 15, increasing the policy divergence between the two central banks. With the economy slowly improving and bond yields under control, the BoJ is in a position to hold for now. However, with the Fed rate hike path putting upward pressure on yields globally, the market has been looking for signs the BoJ may raise its rate targets, particularly if inflation continues its slow upward trajectory.

Outlook

Play ball!

Spring training is underway, bringing baseball players back for another season. It is a time of unbridled confidence, when every team imagines it will win the World Series, and every player will have a record-breaking year. Of course, few of these predictions come true. Investors appear to have a similar optimism these days, but just as even the greatest players can stumble, political realities and stretched valuations could well disrupt the market rally.

Knuckleball

For years, investors often took their cues by analyzing the nuances of Federal Reserve statements. Now, the focus has increasingly moved to parsing the ups and downs of the Trump administration. For example, equities rallied strongly after President Trump's acclaimed address before both houses of Congress in late February, but stumbled after questions surrounding Attorney General Jeff Sessions broke the next day.

Hit and run

Certainly, the potential Trump administration policies represent an important shift in market sentiment and expectations. But it is important to note that signs of rising economic growth coupled with accelerating inflation—so-called reflation—actually predate President Trump's election. Economic data already show an improving economic picture, before the new administration's policies have even been enacted. Moreover, it is a global phenomenon. In short, we still see reflation as the driving force for the market whether it gets a "steroid boost" from new policies or not.

Small ball strategies

U.S. stocks are not cheap, but there are pockets worth considering, such as financials and value. We still prefer stocks over bonds, and within stocks looking overseas in Europe, Japan and emerging markets, particularly in Asia. Still, investors may need to play a game of "small ball"—by focusing on grinding out runs through singles and moving the runner forward, rather than hoping for the home run.

should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

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