

Franklin Templeton Multi Sector Bond



Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1871AU
Flexible Super – Choice (Super)	AMP1867AU
Flexible Lifetime – Allocated Pension	AMP1855AU
Flexible Lifetime – Super	AMP1851AU
Signature Super	AMP1859AU
Signature Super – Allocated Pension	AMP1863AU

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 maximise total investment returns consisting of a combination of interest income, capital appreciation and currency gains. The benchmark is the Barclays Capital Multiverse Index (Hedged into AUD).

The portfolio will seek to achieve its objective by investing primarily in a portfolio of fixed income securities and debt obligations of government, government-related, securitised and corporate issuers worldwide.

Sub-investment grade exposure may be up to 50% of the portfolio and may take the form of Emerging Market Debt or High Yield credit exposure.

The portfolio may also invest in securities linked to the assets or currencies of any nation. The portfolio may purchase foreign currency denominated fixed income securities and debt obligations and may also invest in derivatives.

Investment category: Diversified Fixed Interest

Suggested Investment Timeframe: 3 years

Relative Risk Rating: Medium

Investment Style: Active

Asset Allocation	Actual (%)	Range (%)
Fixed Interest	75.37%	0-100
Cash	24.63%	0-100

Holdings

Industry Exposure	%
International Government / Agency Bonds	77.45
Corporate Bonds	0.07
Sovereign Bonds	1.50
Convertibles	0.27
Derivatives	(2.56)
Cash & Cash Equivalents	23.27

Regional Exposure	%
Australia / NZ	0.00
Japan	0.00
Developed Asia (ex Japan)	0.00
Europe (ex-UK)	0.00
United Kingdom	0.00
North America	(0.05)
Middle East & Africa	2.85
Emerging / Frontier Europe	0.68
Latin & South America	39.15

Emerging / Frontier Asia	29.25
Other	28.12

Top Ten Securities	%
LETRA TESOURO NACIONAL 01/01/2020 STRIP COUPON	7.03
KOREA TREASURY BOND 1.875% 03/10/2022	6.56
FEDERAL HOME LOAN BANK DISCOUNT NOTES 01/02/2018	6.34
INDONESIA GOVERNMENT 7.00% 05/15/2022	5.98
KOREA TREASURY BOND 1.375% 09/10/2021	5.50
MEXICAN FIXED RATE BONDS 4.75% 06/14/2018	3.22
MEXICAN FIXED RATE BONDS 5.00% 12/11/2019	3.22
MEXICAN CETES 10/11/2018	2.38
TITULOS DE TESORERIA B 7.75% 09/18/2030	2.08
ARGENTINE BONOS DEL TESORO 15.50% 10/17/2026	1.89

Market Commentary

During the quarter, the US Federal Reserve (Fed) raised the federal funds target rate 25 basis points in December to a range of 1.25% to 1.50%, and began unwinding its nearly US\$4.5 trillion balance sheet in October. In Europe, yields generally declined but the euro strengthened against the US dollar during the quarter. European Central Bank (ECB) President Mario Draghi has continued to indicate that rates are not likely to be hiked until quantitative easing (QE) ends. The Bank of Japan (BOJ) continued with its QE programme during the quarter as short-term yields in Japan remained negative. On the whole, we expect select currencies to appreciate over the medium term, particularly in countries with economic resilience and relatively higher, maintainable rate differentials.

Investment Option Commentary

In the fourth quarter of 2017, currency positions detracted from absolute performance. Interest-rate strategies and overall credit exposures had largely neutral effects on absolute results. Amongst currencies, positions in Latin America (the Mexican peso) detracted from absolute performance. The portfolio's net-negative position in the euro also detracted from absolute results, while its net-negative position in the Japanese yen had

a largely neutral effect. However, currency positions in Asia ex Japan contributed to absolute performance. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. The net effect of duration positions during the period was limited.

Outlook

We anticipate a rise in US Treasury (UST) yields and a reversal of US dollar weakness as the Fed moves towards tightening policy while US inflation pressures begin to pick up. We expect the Fed's balance sheet unwinding to put additional upward pressure on yields. Outside of the developed markets, we continue to see a subset of countries with domestically strong economies that have demonstrated their resilience to global shocks. In the major developed economies, we anticipate continued monetary accommodation and low rates in Japan and the eurozone while rates rise in the US. Overall, we continue to maintain low portfolio duration while aiming at a negative correlation with UST returns.

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