

# Global Bond Index\*

Quarterly Investment Option Update

31-December-2017

\*This option is named "Super Easy International Fixed Interest" under the AMP Flexible Super product line

## Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1379AU*
AMP Flexible Super – Choice (Super)	AMP1508AU*
CustomSuper	AMP1287AU
Flexible Lifetime – Allocated Pension	AMP1294AU
Flexible Lifetime – Super	AMP1287AU
Signature Super	AMP1301AU
Signature Super – Allocated Pension	AMP1308AU

## 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](http://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 provide returns over the long term in line with an appropriate index by investing in International Fixed Interest. Exposure to this asset class will be attained through the use of index focussed investment managers. The strategy aims to provide returns that track the Citigroup (Customised Benchmark) M1 Global ex Australia Index hedged to Australian dollars with net dividends reinvested. This option is hedged to Australian dollars. Currently managed by UBS Asset Management.

**Investment category:** Fixed Interest – Core Fixed Interest

**Suggested Investment Timeframe:** 3 years

**Relative Risk Rating:** Low

**Investment Style:** Index style

Credit Rating Allocation	Actual (%)	Benchmark (%)
Total	100.0	100.0
Aaa	38.7	39.8
Aa	15.5	16.2
A	25.9	27.0
Baa	17.1	17.0
N/A	2.7	-

## Holdings

Industry Exposure	Fund (%)	Benchmark (%)
Treasury / Sovereign / GovInflLink	54.02	54.70
Semi-Govt	0.33	0.00
Govt Related	9.67	11.07
Corporate	18.76	19.10
Asset Backed	15.02	15.14
Cash	2.20	-

Regional Exposure	Fund (%)	Benchmark (%)
Australia	100.41	1.71
Benelux	2.79	2.93
Canada	0.76	3.36
Europe Other	-21.22	5.25
France	6.12	6.09
Germany	4.98	5.35
Italy	3.86	4.05
Japan	0.51	16.74
New Zealand	0.04	0.16
Other	3.22	6.45
Spain	2.75	2.72
Supra	0.18	0.18
Sweden	0.59	0.86
United Kingdom	0.47	5.64
United States	-5.47	38.52

Top Ten Securities	%
AMERICA, UNITED STATES OF 1.50000% 17-15.04.20	0.70
AMERICA, UNITED STATES OF 1.75000% 17-31.05.22	0.65
AMERICA, UNITED STATES OF 1.62500% 15-30.06.20	0.48
AMERICA, UNITED STATES OF 2.25000% 17-15.08.27	0.44
AMERICA, UNITED STATES OF 2.00000% 15-30.11.22	0.44
JAPAN 0.10000% 15-20.09.20	0.39
AMERICA, UNITED STATES OF 1.50000% 14-31.01.19	0.37
JAPAN 0.10000% 17-20.06.22	0.36
JAPAN 0.10000% 17-20.06.27	0.35
JAPAN 0.10000% 15-20.06.20	0.35

## Market Commentary

Total returns from developed market government bonds were mixed but generally positive during the fourth quarter. In the US, Jerome Powell was confirmed as the next chair of the Federal Reserve, economic data was mostly positive and December's rate rise was well flagged. The yield curve flattened over the quarter with two year yields up 40bps, 10 year yields 7bps higher and 30 year yields 12bps lower, leading to virtually flat total returns for the market as a whole. The main news from Europe was the ECB's announcement to reduce its asset purchases from €60bn to €30bn per month for the period January 2018 to September 2018 while retaining an open-

ended commitment to include increasing purchases again should economic conditions deteriorate. Economic data in Europe generally beat expectations and bund yields were little changed over the quarter. Peripheral European markets outperformed bunds despite the political situation in Spain. In the UK, the Bank of England increased bank rate for the first time in over a decade from 0.25% to 0.5%. However the bank's forward guidance was dovish and yields fell 5-15bps across the curve leading to solid total returns from gilts. Corporate bonds outperformed government bonds with spreads tightening in the fourth quarter, supported by a positive global economic backdrop, healthy corporate earnings and continued flows into the asset class. US President Trump's tax reform proposals gathered momentum over the quarter and were ultimately approved by Congress, further supporting spreads. European credit tightened the most, with spreads ending the quarter 10bps tighter, whilst USD and GBP spreads were 8bps and 5bps tighter. Sectors typically correlated with economic growth such as financials, energy and basic industries outperformed over the quarter. Pharmaceuticals, capital goods and UK utilities were among the poorer performing sectors.

## Outlook

The global economic recovery continues to strengthen and broaden, with all 45 OECD economies expected to grow in 2018, and we expect modest further improvement as a result of favourable financial conditions and reduced political uncertainties. Whilst this means that a greater number of central banks are starting on the gradual path to normalisation, inflation generally remains subdued and monetary policy is still accommodative. The Federal Reserve will continue to gradually normalise its key policy rate and balance sheet in 2018. However, under new Chairman Powell, the Fed may make the future rate path more data dependent, especially for core inflation to meet its 2% target. We expect Treasury yields to move higher as a result of stronger growth, tighter policy and recently passed tax cuts. We expect interest rates in Europe to remain unchanged for some time given inflation is still well below target. UK bonds are vulnerable to any Bank of England decision to tighten further, if investment starts to pick up following diminished near term Brexit uncertainties. Inflation remains above target and we believe 10 year yields offer little value at current levels. We believe there are reasons to remain positive on the outlook for investment grade credit. Many of the factors that supported spreads in 2017 are still in place, with risk sentiment benefiting from the synchronised upswing in global growth and accommodative central banks encouraging flows into the asset class as investors search for yield.

## What you need to know

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