AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30-June-2018

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 (%)
Australian Fixed Interest	9.04	0-100
International Fixed Interest	90.40	0-100
Cash	0.56	0-5

Holdings

Industry Exposure	%
Global Sovereign	43.06
Investment Grade Corporates	39.17
Emerging Markets	8.43
High Yield Credits	4.86
Securitised	3.91
Other (incl. Derivatives & Currency)	0.56

Regional Exposure	%
North America	39.55
Europe (excl. Great Britain)	20.38
Australia & New Zealand	11.14
Other (incl. Supranationals)	9.63
Great Britain	9.19
Japan	7.59
Latin America	2.50

Top Ten Securities	%
US TREASURY NOTE 2.125% 11/30/2023	4.52
US TREASURY INFX .125% 04/15/2021	3.51
AUSTRALIA BOND 4.5% 04/15/2020	3.26
AUSTRALIA BOND 5.75% 07/15/2022	3.16
US TREASURY INFX 1.25% 07/15/2020	2.99
GERMANY I/L 1.75% 04/15/2020	2.23
CANADA HOUSING TRUST NOTE 1.25% 06/15/2021	2.15
JAPAN I/L #22 INFX .1% 03/10/2026	1.92
JAPAN I/L #22 INFX .1% 03/10/2027	1.67
AUSTRALIA BOND 2.25% 05/21/2028	1.61

Market Commentary

Fixed-income markets had mixed performance in June, as trade tensions continued to mount and the US dollar strengthened further. Developed-market treasury yields were little changed, flattening modestly outside of the eurozone, where receding political concerns in Italy caused yields to rally. US high yield rebounded on strong US economic data, while global and European high-yield markets lagged amid subdued appetite for risk. Emerging-market (EM) assets—debt, currencies and equities—remained under pressure due to concerns surrounding the possibility of a trade war, Chinese growth and a hawkish US Federal Reserve (the Fed).

The dollar was up against almost all developed and EM currencies in the month. In the developed space, it strengthened against the New Zealand dollar, Australian dollar, yen and Swedish krona. It was down relative to the Norwegian krone, which jumped to an eight-month high after the country's central bank said the benchmark policy rate may be raised as early as September, a prospect that had yet to be fully priced in by the markets. In EM currencies, the dollar rose most compared with the Argentine peso, which tumbled to a record low given the difficult macro backdrop and fiscal issues within the country. The dollar was also up against the South African rand (on weaker-than-expected GDP data) and the Brazilian real, as the country's truckers' strike spread to oil workers. Meanwhile, the Chinese renminbi registered steep losses versus the US dollar, due to weak economic data in China and increased trade tensions regarding US sanctions, pulling down a basket of currencies across Asia.

The Fed raised rates at its June meeting, as expected, but also surprised markets by increasing the median dot projections for 2018 from three to four hikes. At the same time, the euro declined after dovish commentary from the European Central Bank (ECB). Though the bank held benchmark rates steady, as anticipated, it updated forward guidance to say that it would keep the policy rate unchanged "until at least the summer of 2019." The ECB also announced that its asset-purchase program would begin to taper in September 2018, but surprised investors by committing an additional €15 billion per month through the end of the year.

Investment Option Commentary

8.12

In June, the Fund underperformed its benchmark. Country/yield-curve positioning was the primary source of relative underperformance. Positioning in the US and the eurozone detracted while positioning in Canada added.

Sector/security selection was neutral for returns. There were no positions of note.

Currency decisions added to performance, because of an overweight exposure to the US dollar. The Fund is positioned in accordance with several main themes. AB anticipate that market volatility will be higher in 2018 and 2019 than in previous years, due to the decline in the size of the Fed's balance sheet and the end of quantitative-easing purchases from the ECB. Given where credit valuations currently stand, AB choose to focus more on very short-dated credit spreads, and are reducing spread duration outside of financials, to better protect against downside. Most of the Fund's investment-grade credit positions have a duration lower than five years, and about a third of the positions have a duration lower than three years. AB expect European government yields to rise over the course of the second half of 2018; the end of the ECB's buying program at the end of the year will likely initiate a correction in the cost of European yields. AB expect financials to benefit from an improved fundamental picture and cheaper valuations versus other corporate sectors. AB expect high-yield EM sovereign debt to benefit from cheap valuations versus US dollar-denominated corporate high-yield debt from developed-market issuers. Finally, AB believe US dollar-denominated securitized bonds will benefit from wide spreads and an improved US growth outlook.

The overall duration of the Fund was reduced from 2.4 to 2.1 years during the month. AB trimmed its Canada duration after recent outperformance versus other markets, and the flattening of the yield curve. The team reduced exposure to the long end of the curve in Germany, increasing short European duration in the process. AB also added very small positions in local Mexico and South Africa following the significant underperformance of EM local duration in general.

AB increased our exposure to US inflation-linked bonds, taking our overall exposure to global inflation bonds to a record high for the strategy.

In currencies, AB moved to a short bias in Asian currencies, given expectation that the Chinese renminbi will depreciate further. Consequentially, AB closed its long positions in China and India, and kept shorts in Singapore and Taiwan and long in Malaysia. The Fund is modestly long both the euro and US dollar. In Latin America, the Fund is modestly long Brazil and Mexico versus short Columbia. AB closed its position in Argentina.

The Fund modestly reduced its exposure to investment-grade and high-yield corporates, as well as the Fund's overall credit spread duration, given the withdrawal of central bank liquidity. However, added to front-end exposure in the European investment-grade space, as the investment manager felt that the sell-off there was overdone. The Fund simultaneously sold longer-dated European high-yield corporates. AB trimmed its high-yield corporate exposure in the US in favor of short-dated EM hard-currency sovereigns and corporates that had underperformed during the sell-off.

The Fund's spread duration is approximately 2.1 years. AB continue to focus on shorter-maturity securities, where they can benefit from spread but experience lower volatility than with longer-maturity holdings.

Currently, more than two thirds of our spread sector risk comes from investment-grade and high-yield corporate debt, some of which is in financials. The Fund's next largest spread sector exposure is to EM hard-currency debt—about half of which is in high-yield-rated sovereigns—followed by commercial mortgage-backed securities (CMBS) and agency risk-sharing securities. The Fund prefer to take CMBS exposure through derivatives and will increase exposure should cash bond spreads correct.

Outlook

AB continue to forecast global GDP growth of 3.2% in 2018 and EM expansion of 4.8%, though AB have revised its developed-market GDP estimate upward a bit, to 2.3%. AB expect global growth to continue and monetary stimulus withdrawal to remain gradual. But certain risks have intensified, including rising trade tensions, European politics and higher oil prices. We're also getting closer to the day when abundant central-bank liquidity can no longer be taken for granted. The Fed has raised rates twice so far in 2018 and the ECB announced it will cease asset purchases at the end of the year. This points to higher bond yields and a more difficult environment for risk assets ahead. This transition has already added to volatility and exposed fault lines in emerging markets. Thanks to global growth, it's not time to be outright negative, but investors should expect this more difficult backdrop to continue.

With financial market tensions erupting in Europe and EM, the US stands out as an oasis of relative calm, despite the day-to-day political noise in Washington. Its relative stability has been driven in large part by a strong economic outlook that has proven resilient against many potential risk events over the last few quarters. While past performance is never a guarantee of future results, it is encouraging that the economy has withstood so much political volatility. Growth is and should remain above potential, in AB's view, while unemployment is at a multigenerational low and inflation is under control. That puts the Fed on track to increase rates gradually. Sharper rate hikes and global trade wars are risks, but for now they don't appear grave enough to slow the US economy's momentum. AB have raised their 2018 GDP growth forecast to 2.5% (from 2.3%).

AB have reduced their 2018 growth forecast for the euro area to 2.3% in light of the region's weak start to the year and the negative effects of both rising trade tensions and political uncertainty. The new Italian government also poses risks to the outlook; while it does not plan to quit the single currency, its policies could lead to tension with its euro-area partners and increased market volatility. Nonetheless, the eurozone's fundamental backdrop remains sound. The ECB has announced that it will phase out asset purchases by the end of the year, and from there AB expect that the market's focus will be on interest rates. AB see two 0.25% hikes in the refinancing rate by the end of 2019.

Despite a soft first-quarter GDP reading in Japan, capacity is still getting tighter and AB expect to see inflation rise in the months ahead. Wage increases have started to move in the right direction, but CPI inflation remains far from the Bank of Japan's 2% target. In this environment, AB expect the central bank to maintain its quantitative and qualitative easing/yield-curve control program, designed to cap 10-year yields at zero, well into 2019. A premature move to normalize policy—either because of a monetary policy misstep or political developments—presents a downside risk, as it could spark a sharp appreciation in the yen, undermine the equity market and slow growth and inflation. AB forecast GDP growth of 1.3% in 2018.

In Australia, business sentiment remains solid and hiring has also been strong. AB continue to estimate 2018 GDP growth of 2.6%. On the other hand, wage growth is at record lows, consumption remains weak and housing prices are starting to decline. While this tension between good and bad economic data will be difficult to resolve, AB expect the central bank to join the global policy-normalization process by mid-2019. In Canada, trade negotiations are going poorly. AB still expect that NAFTA countries will eventually reach agreement, but the process has undoubtedly been messier than expected. In the meantime, solid growth and inflation nearing the Bank of Canada's target justify additional rate increases, which AB expect to see over the summer, and their GDP forecast for 2018 remains 2.5%.

What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believe to accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.