BlackRock Global Bond

Quarterly Investment Option Update

30-June-2018

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	Actual (%)	Range (%)
Australian/ International Fixed Interest and Cash	100	0-100

Holdings

Industry Exposure	%
Treasuries	46.1%
Government Related	15.9%
Corporates	17.9%
Securitized	18.5%
Municipals	0.1%
Derivatives	0.1%
FX	-1.7%
Cash Securities	3.1%

Regional Exposure	%
United States	28.7%
Japan	13.9%
United Kingdom	13.0%
Germany	9.6%
France	4.4%
Australia	3.8%
Other	23.7%

Top Ten Securities	%
Not Applicable	

Market Commentary

Overall, the US economy continues to show positive growth momentum, despite lingering uncertainty around the future of international trade relations The Federal Reserve (Fed) left interest rates unchanged and in line with expectations in May, with policymakers emphasizing the "symmetric" inflation target that would allow inflation to run modestly above or below the 2% target. The latest Federal Open Market Committee (FOMC) underscored a sustained path towards gradual policy normalization, and signalled for an interest rate hike in June. Data prints remain supportive of the Fed's dual mandate, with the unemployment rate at 3.9% in April. Core CPI came in slightly below expectations at 2.1% y/y, while April headline CPI printed at 2.5% y/y, driven by temporary weakness from volatile components including new and used automobiles and airfare. Despite the perceived miss in inflation after months of strong inflation prints, the data remains supportive of the Fed's current policy path and is in line with forward inflation expectations.

In terms of economic sentiment, the US Consumer Confidence Index increased to 128.0 in May from 125.6 in April, with consumer expectations of domestic economic conditions at a 17-year high, driven in part by a positive outlook for the job market. The print suggests improving economic conditions from Q1 to Q2, but notes that a significant increase in growth momentum is unlikely to occur in the coming months. The University of Michigan's Consumer Sentiment Index maintained its elevated levels at 98.0 from 98.8 in April, as concerns around trade tariffs were balanced by tax cut benefits. The survey showed that consumers anticipate smaller gains in their income than previously thought, even as the unemployment rate stabilizes around its 18-year low. Overall confidence levels continue to remain at historically high levels, lending support to solid growth and consumer spending in the short-term.

European markets were shaken mid-month by a leaked draft policy paper between the Five Star Movement and Lega Nord, the two Italian parties attempting to form a coalition government after recent elections. The final version of the agreement dropped the more controversial aspects, such as a push for a cancellation of Italian debt held at the ECB or a popular referendum on euro membership, but the proverbial cat was out of the bag and the market attention quickly shifted to the proposed cabinet of ministers and in particular a Eurosceptic finance minister Paolo Savona. Volatility in Italian debt quickly spread to other euro risk assets with periphery and credit spreads selling off as well although not nearly to the same extent. The most impacted was the front end of the Italian sovereign curve with 2-year yields rising from -0.3% to over 2.5% at one point before settling around a 0.7% mark to finish the month. Investment grade credit OAS widened by 26bps with Financials underperforming Non-Financials. Economic data came in mixed. Eurozone Unemployment marked a new post crisis lows at 8.5% with notable improvements in Spain and Portugal.

Japanese government bonds yields (JGBs) were slightly lower but continued to trade in a tight range. 10-yr yields were down by 2bp and closed at 0.04%, while the 30-year yields were lower by 3bps at 0.72%. 30-yr yields fell towards month end to 0.71% but rebounded as global interest rates rose after concerns on Italian politics have faded. In May, total cash earnings per worker y/y dramatically improved to +2.1% y/y vs. +1.0% in the prior month. Total employees' earnings (workers*wage) accelerated to +4.8% y/y, the highest level since January 1997. Q1 GDP was weaker than forecasts:-0.2% q/q (-0.6% annualized) vs. +0.1% in the prior quarter (-0.0% est.), while the contribution from key demands such as personal consumption and capex were largely flat on q/q. This was the first negative growth in nine quarters. Even with this weakness, GDP growth in FY17 was above the potential. Given recent strong capex intentions of Japanese companies and robust moves in wage/worker and employment growth, we think this weakness will be temporary rather than the start of a slowdown.

Investment Option Commentary

The Fund underperformed its benchmark over the previous 2 months; driven partly by emerging markets and credit strategies.

Within the macro strategies, an underweight to Italian 10-year bonds contributed well to performance as Italian yields surged to its highest levels following heightened political risks in Italy disrupting markets. Elsewhere in Europe, semi-core and peripheral spreads also widened and were not immune from the spill over from Italy. As such, duration underweights to France, Spain as well as Belgium and Hungary, also aided performance.

On the negative side, the long EUR position underperformed as the currency weakened on the back of the volatility and the duration positioning across the UK also detracted. The fund held a steepener trade – where it has been overweight 2-year and underweight gilts – alongside a 10 versus 30-year flattener in the portfolio, to reflect the manager's view of an improved domestic political and economic outlook. These positions detracted as Italy's political crisis drove investors to seek safe-haven assets driving gilt yields to fall. In the US, the 2 versus 5-year steepener trade, which the team have since reduced, also detracted as front-end US yields ended the quarter higher, and the treasury curve flattened over the period.

The emerging market strategies were a primary contributor to the underperformance in May driven by a long EM local currency and hard currency ETF positions. The asset class continued to come under pressure on the back of outflows, a strengthening dollar and rising idiosyncratic risks. Long allocations to Brazilian and Mexican local rates detracted, as did Argentinean hard currency sovereign bonds. Overweights to Chinese state-owned companies helped offset some of the underperformance.

Credit strategies contributed negatively to performance over the period. Overweights to investment grade financials, primarily European senior and Tier 2 banks, detracted as spreads widened on the back of the political volatility and market moves in Italy. Exposure to European non-financials were also negative on the back of the risk-off sentiment, Selective exposures to industrials, such as an overweight US technology, and an underweight to European non-cyclical names, helped offset some of the negative performance. Underweight to European utilities also helped aid performance, driven by exposures to electric and natural gas sectors.

Outlook

Market sentiment has shifted markedly. 2017 was a year of upside growth surprises and muted inflation – and unusually low volatility. That set the stage for outsized risk-adjusted returns across markets. Fast forward to 2018: sentiment on many of these key market drivers has shifted.The growth picture is still bright overall. Inflation risks look more two-way, and financial conditions are tightening as US rates rise. Monetary policy is shifting, with the Fed pushing on with normalisation and the European Central Bank (ECB) set to wind down its asset purchases by year-end. The Bank of Japan looks poised to keep its ultra-easy policy on hold as it awaits a sustainable increase in inflation. The big change in 2018: a rise in macro uncertainty, with potential trade wars and US overheating risks.

Themes

BlackRock's base case sees strong US growth extending positive spillover effects to the rest of the world, sustaining the global economic expansion. Yet the range of possibilities for the economic outlook has widened. On the downside: trade war and overheating risks. On the upside: US stimulusfuelled surprises. This greater uncertainty – along with rising interest rates – has contributed to tightening financial conditions and argues for building greater resilience into portfolios. A rising US dollar squeezes dollar-funded entities including emerging markets (EMs) with large external debt loads.