

# Franklin Templeton Multi Sector Bond



Quarterly Investment Option Update

30-June-2018

## 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](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 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	87.00%	0-100
Cash	13.00%	0-100

## Holdings

Industry Exposure	%
International Government / Agency Bonds	85.52
Corporate Bonds	0.02
Sovereign Bonds	1.57
Convertibles	0.26
Derivatives	(2.46)
Cash & Cash Equivalents	15.09

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	0.72
Middle East & Africa	2.95
Emerging / Frontier Europe	0.79
Latin & South America	43.11

Emerging / Frontier Asia	33.43
Other	18.99

Top Ten Securities	%
FEDERAL HOME LOAN BANK DISCOUNT NOTES 07/02/2018 AGCD	8.03
KOREA TREASURY BOND 1.875% 03/10/2022	6.71
LETRA TESOURO NACIONAL 01/01/2020 STRIP COUPON	6.66
KOREA TREASURY BOND 1.375% 09/10/2021	5.64
INDONESIA GOVERNMENT 7.00% 05/15/2022	5.64
MEXICAN FIXED RATE BONDS 5.00% 12/11/2019	3.42
THAILAND GOVERNMENT BOND 3.875% 06/13/2019	2.92
ARGENTINE BONOS DEL TESORO 15.50% 10/17/2026	2.63
MEXICAN CETES 10/11/2018	2.60
THAILAND GOVERNMENT BOND 5.50% 08/13/2019	2.59

select emerging markets. Select duration exposures in Latin America (Argentina) and Asia ex Japan (Indonesia) detracted from absolute performance.

## Outlook

The manager continues to have a positive outlook for US growth and the global economy for 2018, but they're continuing to watch for potential economic disruptions. At this stage, the risks of a full-scale retaliatory trade war appear relatively contained, but an escalating trade conflict that damages global growth remains a risk. In the major developed economies, the manager anticipates continued monetary accommodation and low rates in Japan and the eurozone while rates rise in the US—those increasing rate differentials should depreciate the yen and euro against the US dollar. Outside of the developed markets, the team is focused on specific emerging markets that are less externally vulnerable and more domestically driven, and that have responsible, credible central banks that consistently respond with appropriate monetary policies. The fund continues to hold select local-currency duration exposures in countries that the manager believes have healthy fundamentals and significantly higher yields than those available in developed markets. The manager also expects currency appreciation across a select subset of emerging markets.

## Market Commentary

During the second quarter, the US Federal Reserve (Fed) raised the federal funds target rate 25 basis points (bps) to a range of 1.75% to 2.00% at its 13 June meeting. Market expectations for additional hikes in 2018 remained strong, with fed funds futures at the end of June indicating another 25 bp hike at the 26 September meeting. The 10-year German Bund finished the quarter 19 bps lower at 0.30%. The euro depreciated against the US dollar during the period, as did the Japanese yen. In emerging markets, yields rose across several local markets in Asia and Latin America. Emerging-market currencies also largely depreciated against a broadly stronger US dollar during the quarter.

## Investment Option Commentary

In the second quarter of 2018, currency positions and interest-rate strategies detracted from the portfolio's absolute performance. Overall credit exposures had a largely neutral effect on absolute results. Amongst currencies, positions in Latin America (the Argentine peso, Brazilian real and Mexican peso) and Asia ex Japan (the Thai baht) detracted from absolute performance. However, the portfolio's net-negative positions in the euro and the Japanese yen contributed to absolute results. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in

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