

AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 September 2018

Aim and 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 and fixed income securities. It implements a global, multi-sector strategy investing in a broad range of fixed income securities. The strategy may hold corporate bonds, government bonds, asset-backed securities, mortgage-backed securities, closed and open-ended mutual funds (up to 5% of the assets) and bank loans located anywhere in the world, including developed and emerging countries. Up to 40% of the strategy's assets may be higher risk and rated below investment grade. The strategy intends to hedge to Australian dollars most of the foreign currency exposures of its debt and fixed income securities, however up to 10% of the strategy's net asset value may be exposed to the risks and returns of international currencies. Derivatives may be used to manage risk exposures, invest cash and gain or reduce investment and currency exposures. Derivatives will not be used for leveraging or gearing purposes.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested investment timeframe	5 years
Relative risk rating	3 / Low to Medium
Investment style	Opportunistic

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed	0	92.3
Aust. Fixed Interest	0	7
Cash	100	0.7

Sector Allocation	%
Global Sovereign	52.3
Investment Grade Corporates	29.4
Emerging Markets	6.0
High Yield Credits	4.1
Securitised	8.3
Other (inc. Derivatives & Currency)	-0.1

Regional Allocation	%
North America	46.5
Europe (excl. Great Britain)	20.7
Australia & New Zealand	7.9
Other (incl. Supranationals)	10.9
Great Britain	5.6
Japan	7.0
Latin America	1.3

Top Holdings	%
US Treasury 2.75% 04/30/2023	6.6
Canada 2% 09/01/2023	4.2
Australia 5.25% 03/15/2019	3.8
UST IFL 0.125% 04/15/2021	3.5
UST IFL 1.25% 07/15/2020	2.9
Canada 0.75% 03/01/2021	2.5
Germany I/L 1.75% 04/15/2020	2.2
Canada Housing Trust 1.25%	2.2
International Finance Corp 3.25%	2.0
European Investment Bank 6.5%	2.0

Portfolio Summary

- It remains important for fixed-income investors to be selective given tightening financial conditions.
- Rising trade tensions and tighter financial conditions signpost a step down in the pace of global growth.

Investment Option Commentary

Sector & security selection drove positive returns with value add from exposure to high-yield and investment-grade corporates in the eurozone. Exposure to investment-grade corporates in the US also added.

The overall duration of the portfolio remained at 2.1 years quarter over quarter. AB reduced duration in the first two months before adding some back at the end of the quarter, amid rising yields and increasing downside risks. AB reduced exposure to investment-grade credit, using periods of strength to trim longer-maturity positions, reducing spread duration from 2.1 to 1.8 years and rotating into shorter-dated, Australian-dollar denominated supra-nationals that offer an attractive yield over Australian bank bills. Considering the downside Brexit risks, AB also reduced exposure to UK banks.

Given that credit valuations remain rich, AB concentrate the portfolio's exposure in very short-dated credits to better protect against volatility and downside risk. Most of the portfolio's investment-grade positions have a duration under five years, and nearly two.

Market commentary

Financial conditions continued to tighten in the third quarter and trade tensions persisted, causing the bond market to flash some warning signals. AB have not materially changed their global growth outlook for this year or next, but risks to the outlook have increased since the start of 2018. It remains important for fixed-income investors to be selective.

Financial markets sent investors mixed messages during the third quarter. The US stock market hit yet another record high in September, backed by a US economy that appeared to be firing on all cylinders, and corporate bond spreads narrowed in the US and Europe. But a stronger US dollar and worsening global trade tensions have kept pressure on emerging-market (EM) assets and dimmed the outlook for China's economy.

Outlook

Rising trade tensions and tighter financial conditions signpost a step down in the pace of global growth. In AB's view, the trade conflict should not be seen as an idiosyncratic development that will quickly fade. Rather, the manager sees it as another manifestation of the rise in populism, which will likely impact the investment backdrop for some time to come. Though AB doesn't expect a sharp slowdown in growth, thanks to the benign overall policy backdrop, increasing uncertainty and volatility are likely to dampen growth and add to inflation. Even if the US and China are at the center of the trade war, economies with higher trade sensitivities are more likely to be adversely affected. For now, AB's global GDP growth forecasts for 2018 and 2019 are unchanged, at 3.1% and 2.9%, respectively. While AB's 2018 growth estimate for EM remains 4.7%, 2019 forecast to 4.5%. AB continue to expect developed-market GDP growth of 2.2% this year, ahead of 1.9% next year.

As expected, the Reserve Bank of Australia (RBA) left rates unchanged at its September meeting, reiterating its strategy of holding and waiting, and emphasizing that progress in reducing unemployment and raising inflation will be gradual. Additionally, higher consumer rates (mortgages) in Australia make it even less likely, in AB's view, that the bank will change rates before 2020. AB have revised their 2018 and 2019 GDP growth forecasts for the country upward, to 3.2% and 2.3%, respectively.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1997AU
AMP Flexible Super - Retirement account	AMP2022AU
AMP Flexible Super - Super account	AMP2027AU
CustomSuper	AMP1997AU
Flexible Lifetime - Allocated Pension	AMP2002AU
Flexible Lifetime Investment (Series 2)	AMP2036AU
SignatureSuper	AMP2007AU
SignatureSuper Allocated Pension	AMP2014AU
SignatureSuper Select	AMP2007AU

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