

Franklin Templeton Multi Sector Bond

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To maximise total investment returns consisting of a combination of interest income, capital appreciation and currency gains. The benchmark for performance comparison purposes is the Bloomberg Barclays Capital Multiverse Index (hedged into Australian dollars). The option will seek to achieve its objective by investing primarily in a portfolio of fixed income securities and debt obligations (including convertible bonds) of government, government-related, securitised and corporate issuers worldwide. Sub-investment grade and non-rated exposure may be up to 50% of the portfolio and may take the form of emerging market debt or high yield credit exposure. The option may also invest in securities linked to the assets or currencies of any nation. The option may purchase foreign currency denominated fixed income securities, debt obligations, and may also invest in derivatives.

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	3 Years
Relative risk rating	Medium
Investment style	Specialist - Opportunistic

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	87.71%
Cash	N/A	12.29%

Sector Allocation	%
International Government / Agency Bonds	86.24
Corporate Bonds	0.01
Sovereign Bonds	2.06
Convertibles	0.27
Derivatives	(1.68)
Cash & Cash Equivalents	13.10

Regional Allocation	%
Australia / NZ	0.00
Japan	0.00
Developed Asia (ex Japan)	0.00
Europe (ex-UK)	0.00
United Kingdom	0.00
North America	1.42
Middle East & Africa	3.04
Emerging / Frontier Europe	0.57
Latin & South America	43.24
Emerging / Frontier Asia	34.03
Other	17.70

Top Holdings	%
FEDERAL HOME LOAN BANK DISCOUNT NOTES 10/01/2018 AGCD	7.92
KOREA TREASURY BOND 1.875% 03/10/2022	6.96
LETRA TESOURO NACIONAL 01/01/2020 STRIP COUPON	6.74
KOREA TREASURY BOND 1.375% 09/10/2021	5.85
INDONESIA GOVERNMENT 7.00% 05/15/2022	5.65
MEXICAN FIXED RATE BONDS 5.00% 12/11/2019	3.77
MEXICO CETES 05/23/2019 TBLM	3.13
THAILAND GOVERNMENT BOND 3.875% 06/13/2019	3.08
MEXICAN CETES 10/11/2018	2.87
THAILAND GOVERNMENT BOND 5.50% 08/13/2019	2.67

Portfolio Summary

- The portfolio maintained a defensive approach regarding interest rates in developed markets.
- The US Fed raised the federal funds target rate 25 basis points (bps)
- The Fund Manager continues to have a positive outlook for US growth and the global economy for 2018.
- The Fund Manager 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

Investment Option Commentary

In the third quarter of 2018, interest-rate strategies detracted from the portfolio's absolute performance. Currency positions and overall credit exposures had largely neutral effects on absolute results. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Select duration exposures in Latin America (Argentina) detracted from absolute performance. Amongst currencies, the portfolio's net-negative positions in the Japanese yen and the euro contributed to absolute results. However, currency positions in Latin America and Asia ex Japan detracted from absolute performance (the Argentine peso and Indian rupee detracted, while the Mexican peso contributed).

Market commentary

During the third quarter, the US Federal Reserve (Fed) raised the federal funds target rate 25 basis points (bps) at its 26 September meeting. Market expectations (indicated by fed funds futures) for an additional rate hike in December remained strong. The 10-year US Treasury note's yield rose 20 bps to end the quarter at 3.06%. The yield on 10-year German Bunds increased 17 bps to 0.47% during the quarter. The Japanese yen depreciated against the US dollar, while the euro modestly weakened. Emerging-market currencies largely depreciated against a broadly stronger US dollar during the quarter.

Outlook

Overall, the investment convictions remain largely unchanged, despite the escalation in emerging-market risk aversion in recent months. The Fund Manager continues to have a positive outlook for US growth and the global economy for 2018. In the major developed markets, the Fund Manager anticipate continued monetary accommodation and low rates in Japan and the eurozone while rates rise in the US. Outside of the developed markets, The Fund Manager 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 portfolio continues to hold select local-currency duration exposures in countries that they believe have healthy fundamentals and significantly higher yields than those available in developed markets. The Fund Manager also expects currency appreciation across a select subset of emerging markets.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1851AU
AMP Flexible Super - Retirement account	AMP1871AU
AMP Flexible Super - Super account	AMP1867AU
CustomSuper	AMP1851AU
Flexible Lifetime - Allocated Pension	AMP1855AU
SignatureSuper	AMP1859AU
SignatureSuper Allocated Pension	AMP1863AU
SignatureSuper Select	AMP1859AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)



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