

# Franklin Templeton Multi Sector Bond

Quarterly Investment Option Update

31 December 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](http://amp.com.au)

## Investment Option Overview

<b>Investment Category</b>	Specialist Fixed Interest
<b>Suggested investment timeframe</b>	3 Years
<b>Relative risk rating</b>	Medium
<b>Investment style</b>	Specialist - Opportunistic

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	86.91%
Cash	N/A	13.09%

Sector Allocation	%
International Government / Agency Bonds	88.28
Corporate Bonds	0.02
Sovereign Bonds	2.22
Derivatives	(3.60)
Cash & Cash Equivalents	13.08

Regional Allocation	%
Australia / NZ	0.00
Japan	0.00
Developed Asia (ex Japan)	0.00
Europe (ex-UK)	0.01
United Kingdom	0.00
North America	(0.04)
Middle East & Africa	0.88
Emerging / Frontier Europe	0.56
Latin & South America	49.41
Emerging / Frontier Asia	30.94
Other	18.24

Top Holdings	%
LETRA TESOURO NACIONAL 01/01/2020 STRIP COUPON	7.42
INDONESIA GOVERNMENT 7.00% 05/15/2022	6.88
KOREA TREASURY BOND 1.875% 03/10/2022	6.19
MEXICO CETES 05/23/2019 TBLM	4.47
MEXICAN FIXED RATE BONDS 5.00% 12/11/2019	4.21
THAILAND GOVERNMENT BOND 3.875% 06/13/2019	3.22
THAILAND GOVERNMENT BOND 5.50%	3.17
MEXICAN CETES 03/28/2019	2.82
MEXICO CETES 07/18/2019 TBLM	2.52
TITULOS DE TESORERIA B 7.75% 09/18/2030	2.42

## Portfolio Summary

- The portfolio's positive absolute performance was primarily attributable to currency positions.
- A defensive approach was maintained regarding interest rates in developed markets, while holding duration exposures in select emerging markets with the exposure in Brazil contributing to absolute results.
- Overall Franklin Templeton's investment convictions remain largely unchanged. The portfolio is expected to continue to maintain low portfolio duration while aiming at a negative correlation with UST returns.

## Investment Option Commentary

In the fourth quarter of 2018, the portfolio's positive absolute performance was primarily attributable to currency positions. Interest-rate strategies and overall credit exposures had largely neutral effects on absolute results. Amongst currencies, positions in Asia ex Japan and Latin America contributed to absolute performance (the Argentine peso, Indian rupee, Indonesian rupiah and Brazilian real contributed, while the Mexican peso detracted). The portfolio's net-negative position in the euro also contributed to absolute results, while its net-negative position in the Japanese yen detracted. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Negative duration exposure to USTs detracted from absolute performance, as did duration exposure in Argentina. However, duration exposure in Brazil contributed to absolute results.

## Market commentary

Market volatility escalated during the fourth quarter, as global growth uncertainties and trade concerns led to rallies in perceived safe haven assets. The yield on the 10-year US Treasury (UST) note dropped 38 basis points (bps) to end the reporting period at 2.69%. During the quarter, the US Federal Reserve raised the federal funds target rate 25 bps to a range of 2.25% to 2.50% but modestly lowered its forecast for US economic growth for 2019. European Central Bank President Mario Draghi has continued to indicate that rates will likely remain unchanged until at least the summer of 2019. The central bank's net asset purchase programme concluded at the end of December, but balance sheet reinvestments will continue.

## Outlook

Overall, Franklin Templeton's investment convictions remain largely unchanged. Many of the countries that the Fund Manager believed were undervalued earlier this year became even more undervalued during the "risk-off" cycles in August and September. Longer term Franklin Templeton continues to have a positive outlook on a number of local-currency markets that the Fund Manager believes are fundamentally stronger than markets have been indicating. Franklin Templeton continues to see a subset of countries with domestically strong economies that have demonstrated their resilience to global shocks, including potential increases in trade costs. In the major developed economies, the Fund Manager anticipates continued monetary accommodation and low rates in Japan and the eurozone while rates rise in the US. Franklin Templeton expects to continue to maintain low portfolio duration while aiming at a negative correlation with UST returns.

## 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

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