AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31 March 2019

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	97.4
Aust. Fixed Interest	0	2.5
Cash	100	0.1

Sector Allocation	%
Investment Grade Corporates	32.3
Global Sovereign	32.0
Securitised	11.7
Emerging Markets	11.0
High Yield Credits	4.3
Other (inc. Derivatives & Currency)	8.6

Regional Allocation	%
North America	35.9
Europe (excl. Great Britain)	28.6
Australia & New Zealand	3.1
Other (incl. Supranationals)	16.5
Great Britain	8.4
Japan	7.2
Latin America	0.3

Top Holdings	%
Japan I/L Infx .1% 03/10/2026	3.2
Intl Bank Note 5.75% 10/21/2019	2.0
Intl Finance Corp 3.25% 07/22/19	2.0
Euro Investment Bank 6.5% 08/7/29	2.0
UK Bond 2.5% 04/16/2020	1.7
KFW Bond 6.25% 12/04/2029	1.5
AB SICAV China Bond	1.5
Australia Bond 2.25% 05/21/2028	1.5
UST Infl 0.125% 04/15/2021	1.3
Japan I/L 0.1% 03/10/2028	1.1

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 was the primary source of relative outperformance, mostly because of exposure to investment-grade and high-yield corporates in the eurozone and the US. An overweight to US inflation-linked securities and an underweight to US emerging-market (EM) sovereigns also contributed.

Country/yield-curve positioning was positive for performance. Gains from positioning in the US and Australia outweighed losses from positioning in the eurozone.

Currency decisions were negative, although there were no positions of note.

Market commentary

Two of the world's major central banks turned more dovish in the first quarter, helping spark a rally in corporate and EM debt, equities, and other growth-sensitive assets. But a highly uncertain outlook for the global economy may yet dull the market's appetite for risk. For bond investors, selectivity is still the name of the game.

Risk assets bounced back in the first quarter from a dreadful finish in 2018. A big reason for the rebound was the abrupt course correction by the US Federal Reserve (the Fed), which went from raising interest rates in December (and signaling more to come) to indicating in March that it expects to stick to the sidelines for the rest of this year—and next.

But the reasons for the Fed's about-face—trade tensions, the sluggish Chinese economy, persistently low inflation—show that global growth has slowed more swiftly than many of us expected. In Europe, a materially weaker outlook, highlighted by poor German manufacturing data, prompted the European Central Bank (ECB) to scrap plans to hike rates in 2019.

This uncertain growth environment pushed government bond yields in the developed world steadily lower throughout the quarter, even during periods when risk assets rallied. While US and European credit spreads narrowed, most German and Japanese bond yields fell deeper into negative territory.

The 10-year German Bund yield ended the quarter at (0.07)%, more than 30 basis points below where it stood in December, while the yield on the 10-year US Treasury fell to its lowest level since late 2017, taking it below the yield on three-month Treasury bills for the first time in more than a decade. Bond traders are now betting that the Fed will be forced to cut rates before year-end.

Outlook

AB expect subdued global growth to continue, in line with the weak secular trend, and that developed-market monetary policy will likely remain accommodative. In their view, global growth risks are still skewed to the downside. Although several macro questions have resolved positively this year (Fed rate hikes have pushed out, China has increased the pace of stimulus and the trade war has de-escalated), both European growth and global trade have continued to slow. Though they think a recession will likely be avoided, it may be several months before they see clear signs of stabilization. AB have modestly trimmed their global and EM GDP growth forecasts for this year—to 2.6% and 4.4%, respectively—but still expect developed-market growth of 1.6%.

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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