AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 June 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
Manager Style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed	0	96.4
Aust. Fixed Interest	0	2.2
Cash	100	1.4

Sector Allocation	%
Global Sovereign	33.8
Investment Grade Corporates	31.9
Emerging Markets	13.9
Securitised	12.3
High Yield Credits	1.7
Other (inc. Derivatives & Currency)	6.2

Regional Allocation	%
North America	38.6
Europe (excl. Great Britain)	28.5
Other (incl. Supranationals)	17.3
Japan	6.5
Great Britain	5.6
Australia & New Zealand	3.1
Latin America	0.3

Top Holdings	%
Poland 2.25% 04/25/2022	3.6
Japan I/L 0.1% 03/10/2026	3.3
UST IFL 0.125% 01/15/2026	2.9
Italy 1.2% 04/01/2022	2.6
International Finance Corp 3.25%	2.0
International Finance Corp 5.75%	2.0
European Investment Bank 6.5%	2.0
UST IFL 1.125% 01/15/2021	2.0
Canada Housing Trust 2.25%	1.6
Australia 2.75% 11/21/2028	1.5

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 relative outperformance, mostly because of exposure to treasuries and investment-grade and high-yield corporates in the eurozone. Selection within US investment-grade corporates also contributed.

Country/yield-curve positioning was positive for performance, as positioning in the US and Australia contributed.

Overall currency decisions were negative for performance, although an overweight to the yen added.

Market commentary

Hostilities on the trade front and worries about global growth have pushed central banks to the brink of quantitative easing mode. The result has been both a significant decline in bond yields and a rally in risk assets. AB sees potential for the risk-asset rally to continue, but downside risks have grown.

Volatility spiked in the second quarter as the US-China trade war heated up again, with the renewed hostilities prompting investors to start pricing in weaker global growth. That helped push already-low government bond yields even lower and temporarily weighed on credit and other growth-oriented assets.

Central banks around the world grew more dovish in response, with the US Federal Reserve and European Central Bank (ECB) both signaling that they were likely to cut interest rates later this year (and, in the ECB's case, restart asset purchases).

The dovish tilt by monetary policymakers on both sides of the Atlantic swelled the value of negative-yielding bonds to a once-unthinkable sum of $12.5 trillion. The 10-year German Bund yield plunged to a record low of (0.33)%, while the 10-year US Treasury yield ended the quarter near 2.00%, 0.40% below its level in late March and more than 1.00% below 2018 peaks. Parts of the yield curves in the US, Germany and Japan were all inverted—typically a harbinger of recession.

But risk assets rallied as the quarter wound down, helped by a late-quarter thaw in trade tensions, and are behaving as if the global economy has hit a temporary speed bump, not the severe slowdown that government bond markets seem to be signaling. Credit spreads in the US and Europe tightened. As the second half of 2019 begins, investors must decide which signal to follow.

Outlook

Global markets have been encouraged by the truce in the trade war between the US and China, as well as by signs that central banks have abandoned monetary policy normalization and are ready to provide additional policy stimulus. But the trade truce remains uneasy and the focus has switched to policy effectiveness. AB are optimistic that policymakers will deliver sufficient stimulus to stabilize growth in China and that Fed rate cuts will do the same in the US. AB are more concerned about Europe, which is vulnerable to a further downswing in the global trade cycle and has limited policy flexibility. AB expect the ECB to ease policy in the coming months, but doubt that this will do much to lift growth or inflation in the region. They are holding their 2019 global, developed-market, and EM growth estimates steady at 2.6%, 1.6%, and 4.4%, respectively, while they monitor the impact of global monetary easing.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1997AU
AMP Flexible Super - Retirement	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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