AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31 March 2020

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 Interest	N/A	96.9
Aust. Fixed Interest	N/A	1.3
Cash	N/A	1.8

Sector Allocation	%
Investment Grade Corporates	41.1
Global Sovereign	24.3
Securitised	15.5
Emerging Markets	10.6
High Yield Credits	7.7
Other (inc. Derivatives & Currency)	0.8

Regional Allocation	%
North America	46.1
Europe (excl. Great Britain)	24.2
Other (incl. Supranationals)	12.1
Great Britain	8.8
Japan	4.6
Australia & New Zealand	2.4
Latin America	1.7

Top Holdings	%
UST IFL .625% 01/15/2026	3.7
Export Dev Canada 2.8% 05/31/23	2.2
German Note 4.25% 01/24/23	2.2
UST IFL 1.125% 01/15/2021	2.1
EIB 4.75% 08/07/2024	2.1
German Bond 4% 02/27/2025	1.8
Swedish Note 1% 10/02/2024	1.6
UST IFL .625% 01/15/2024	1.5
UST IFL .125% 01/15/2023	1.2
Japan I/L .1% 03/10/2026	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

The investment manager's allocation to credit sectors detracted strongly from performance, as credit markets sold off in response to the economic impact from the novel coronavirus. While the overall portfolio risk was moderate, the fund manager's conviction trades sold off stronger than other credit markets—particularly financials (Additional Tier 1 [AT1]) and US securitized assets (credit risk-transfer securities [CRTs] and CMBX.6).

Their long position in inflation-linked bonds detracted, as US Treasury inflation-protected securities (TIPS) underperformed nominal government bonds and breakeven fell sharply following the oil price collapse and the advent of a US recession.

The currency decisions detracted modestly, mainly driven by their long position in the Russian ruble and Mexican peso.

Duration strategy contributed to performance, as yields fell in most developed markets amid wide-spread risk aversion and aggressive monetary policy easing. Their long US duration position helped performance, as well as their UK duration position, which is concentrated in the short-end of the curve. Exposure to Australian government bonds also added to performance.

Market Commentary

Liquidity seized up in March when markets quickly repriced to reflect a significantly darkened economic scenario and uncertainty about how deep and long the coronavirus-induced recession might be. Many sellers came to market, but they found few buyers willing to hold more risk than they already had on their books. Dealer banks that had acted in the past as market makers, stepping in to buy or sell as needed, no longer play the role of buyer in the years since the Global Financial Crisis.

Without this traditional backstop, prices tumbled, and the price of liquidity soared. Deleveraging and forced sales worsened the collapse and accelerated the liquidity spiral. As a result, many investors who sold assets in March paid a great deal to do so. Meanwhile, investors also paid a premium to buy the most liquid securities on the market—US Treasury bills. T-bill yields dipped into negative territory in late March as the flight to liquidity accelerated.

In response to the economic shutdown and resulting liquidity challenges, policymakers have rolled out unprecedented fiscal and monetary support globally. Central banks worldwide dusted off nearly every available tool to restore liquidity to markets and support economic growth. The US Federal Reserve (the Fed) cut rates to zero, resumed quantitative easing and launched numerous facilities to ensure that the plumbing of the financial system will work properly again. Other central banks have taken similar actions to support the flow of credit and the normal functioning of markets.

Outlook

The swift and exceptional response to the virus pandemic by central banks and politicians has created some breathing room for investors. The largest unknowns now are how long it will take to contain the spread of the virus and what the mid-term impact will be on supply chains and demand. China has taken inordinate steps to contain the virus and get people back to work with monetary and fiscal measures. The resumption of meaningful consumer spending in the US and Europe is key to mitigating the economic fallout from the crisis. Global trade conflicts have taken a back seat since the outbreak, but they remain real, uncertain and unresolved. Given the fragility of the current economic environment, The investment manager have lowered their 2020 global GDP growth estimate to a contraction of 0.7%, comprised of a reduction of 2.2% in developed markets and an advance of 1.9% among EM countries. They estimate that global economic growth will recover in 2021 at 3.3%. This rebound will depend crucially on the effectiveness of policies to dampen the economic impact of the lockdowns needed to contain the spread of the virus.

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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