BlackRock Global Bond

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

To generate capital and income return for investors seeking exposure to international fixed income markets, including Australia. The option aims to outperform the Bloomberg Barclays Global Aggregate Index (Australian dollar hedged) over rolling three-year periods. The option invests predominantly in international debt securities and foreign currency exposures. These include a broad universe of investment instruments, including fixed interest securities, mortgage securities, asset-backed securities, derivatives, repurchase agreements, stock lending and units in pooled investment funds.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Global Fixed Interest
Suggested Investment timeframe	2 years
Relative risk rating	4 / Medium
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
International Fixed Interest and Cash	100	100

Sector Allocation	%
Government	39.64
Corporate	29.25
Securitised	28.75
Other	2.36

Regional Allocation	%
UK	1.20
Europe (ex UK)	26.11
North America	50.96
Japan	2.12
Asia (ex Japan)	9.01
Other	10.6

Quality Allocation	%
AAA	34.70
AA	12.91
A	21.32
BBB	21.11
BB>	3.52
Not Rated/Cash	6.44

Portfolio Summary

The strategy underperformed its benchmark over the quarter. In a period of heightened volatility and risk aversion, the investment option's overweight exposure to riskier assets in areas of credit and emerging markets was the main source of under-performance. Within credit strategies, the main detractors included an overweight exposure to securitized assets, investment grade industrials and select high yield names. In addition, an overweight to investment grade utilities and senior financials also had a negative impact on performance. This was partially offset by a credit protection strategy implemented through a broad CDX Index hedge.

Macro rates strategies detracted overall. The main detractors included yield curve positioning and off-benchmark allocation to inflation-linked bonds, both in the US. The strategy's underweight exposures to Germany duration and UK government bonds also detracted, as did its overweight to Greece and Spain government bonds. This was partially offset by the overall US, Japan and Canada duration overweight positions, and an underweight in French government bonds. Developed market currency positions posted negative returns overall over the quarter. The strategy's long Japanese yen against the US dollar position detracted in aggregate, while an overall short euro bias added to returns.

Investment Option Commentary

Going into the unprecedented volatility, the strategy favoured a high-quality and highly diversified portfolio which helped mitigate the tail-risk to an extent. The strategy has been maintaining its positioning being mindful of the liquidity constraints in markets and it continues to hold its high-conviction strategies in the strategy. The strategy maintains it overweight allocations to spread assets where recent weakness appears driven by market dislocations and not fundamentals. Elsewhere, the strategy has increased its overweight allocations in higher quality areas which have sold off indiscriminately, primarily through securitized assets.

Outlook

The strategy's base case positioning is for the disruption to persist into the end of the second quarter, with a rebound in the second half of the year supported by ongoing meaningful policy easing. The clear risk to this case is a more protracted impact from the Virus which lasts through to the end of 2020 and a rebound in economic activity which does not come through until 2021.

Governments are reacting aggressively, ramping up their fiscal spending plans across the globe. U.S. President Donald Trump, for example, has now signed the largest fiscal package in US history, worth more than $2tn including an injection of loans, tax breaks and direct payments. It is evident that global central banks are willing to provide ample liquidity to the system for as long as the uncertainty and business disruption persists. There is a clear willingness from central banks to do whatever it takes to help combat the economic fallout.

The strategy is most constructive in areas which have first, seen indiscriminate selling resulting in valuations dislocating from fundamentals meaningfully and second, where major central banks – most notably the Fed and the ECB - are purchasing assets most aggressively. Given the sheer scale of these asset purchases, this technical support is a major tailwind. Assets likely to benefit includes higher-quality areas of credit markets in the US and peripheral names in sovereign markets in the Eurozone.

Markets will ultimately settle down if three conditions are met: 1) visibility on the ultimate scale of the coronavirus outbreak and evidence the infection rate as peaked over the long term; 2) deployment of credible and coordinated policy packages; and 3) confidence that financial markets are functioning properly. Once there is more clarity on the scale and impact of the outbreak, the policy response that has been seen is setting the stage for an eventual – and strong – recovery.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1102AU
AMP Flexible Super - Retirement account	AMP1338AU
AMP Flexible Super - Super account	AMP1467AU
CustomSuper	AMP1102AU
Flexible Lifetime - Allocated Pension	AMP1107AU
Flexible Lifetime - Term Pension	AMP1111AU
Flexible Lifetime Investment	AMP1116AU
Flexible Lifetime Investment (Series 2)	AMP1403AU
SignatureSuper	AMP1113AU
SignatureSuper Allocated Pension	AMP1142AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS