AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 June 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	96.4
Aust. Fixed Interest	N/A	2.8
Cash	N/A	0.8

Sector Allocation	%
Investment Grade Corporates	43.3
Global Sovereign	21.7
Securitised	12.0
Emerging Markets	11.7
High Yield Credits	6.0
Other (inc. Derivatives & Currency)	5.3

Regional Allocation	%
North America	44.2
Europe (excl. Great Britain)	22.4
Other (incl. Supranationals)	13.3
Great Britain	8.3
Japan	6.1
Australia & New Zealand	3.2
Latin America	2.5

Top Holdings	%
Japan 313 Note 1.3% 03/20/2021	2.9
UST 2.375% 05/15/2027	2.6
Export Dev Canada 2.8% 05/31/2023	2.1
EIB 4.75% 08/07/2024	2.0
Japan 50 Bond 1.9% 03/22/2021	1.9
German Bond 4% 02/27/2025	1.8
Sth Africa 2030 8% 01/31/2030	1.6
German Bond 4.25% 01/24/2023	1.5
UST 4.5% 02/15/2036	1.3
Australia Bond 4.5% 02/15/2036	1.3

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 Fund Manager allocation to credit sectors contributed throughout the quarter amid sharply tightening spreads in April and a sustained recovery in May and June. Corporate bonds, across both investment-grade and high-yield, also added as spreads narrowed with strong central bank support and a gradual lift of lockdown measures across key economies. Exposure to US credit risk–transfer securities (CRTs) also added, as the CRT market recovered from the sharp sell-off in March.

Their allocations to US inflation-linked securities, quasi-sovereigns and asset-backed securities further contributed to returns, as did exposure to eurozone treasuries. Emerging-market (EM) sovereigns and corporates exposure also benefited performance as spreads caught up with the rally that had taken off in corporate credit markets more swiftly. An allocation to US commercial mortgage-backed securities detracted over the quarter.

Country/yield-curve positioning was positive, primarily the result of their shorter-dated securities in the US and UK. The Fund Manager's positioning in peripheral Europe—particularly in Italy and Spain—also added to performance, as the bonds saw some notable spread compression relative to core European rates.

Currency decisions detracted, mostly because of their long positions in the US dollar, Taiwan dollar, yen and Singapore dollar, as well as a short in the Chilean peso. Gains from their long in the Mexican peso and short in the British pound helped offset some of these losses.

Market Commentary

The unprecedented amount of over $12 trillion-and-counting in monetary and fiscal stimulus enacted by central banks and governments to combat market illiquidity and cushion the negative economic impact of the coronavirus pandemic has worked so far. The psychological impact on investors of interest rate cuts, central bank bond buying and lending programs, as well as massive fiscal spending set the stage for a substantial rally in risk assets following the rapid and indiscriminate selling that started in late March. Most developed-market government bond yields continued to decline in the second quarter after historic declines in March, and liquidity improved.

Short-term interest rates remained anchored in most developed markets. Rates rallied in Italy and Spain as the European Central Bank (ECB) continued to support periphery countries through the Pandemic Emergency Purchase Programme. Italian 10-year bond yields fell by 26 basis points (b.p.) to end lower at 1.26%, and Spanish 10-year bonds were 21 b.p. lower at 0.46%. Ten-year German Bund rates rose by one b.p. to (0.46)%. In Japan, 10-year government bonds rose one b.p. to 0.02%. The yield on the 10-year US Treasury peaked at 0.94% in early June based on investor optimism, but ended the period down only one b.p. at 0.66% as US virus cases began to accelerate and the global number of cases surpassed 10 million.

Countries and corporations flooded the market with record new issuance that was readily absorbed by market participants in search of higher yields. After credit spreads widened at an unprecedented pace in March, there was a meaningful recovery over the second quarter. The rally first manifested in the risk premia of higher-quality investment-grade corporate bond issuers and then spilled over into other market segments, including high yield and parts of the mortgage-backed bond market.

In currency markets, the safe haven flight reversed as the US dollar fell against all major developed currencies except the British pound and yen, which rose slightly, and against most EM currencies.

Outlook

The economic outlook remains fluid as the recent global surge in COVID-19 cases continues. The longer-term consequences are still uncertain. Additional fiscal stimulus measures are likely to help combat unemployment levels that were last seen during the Great Depression. The pace of the global economic recovery will be largely based on containing the spread of the virus until treatments and/or vaccines are developed and widely accepted and administered. Global trade conflicts are rampant and getting worse, which may lead to a sustained period of protectionism and deglobalization resulting in further supply-chain disruptions and potential inflation.

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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