

Franklin Templeton Multi-Sector Bond

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To maximise total investment returns consisting of a combination of interest income, capital appreciation and currency gains. The benchmark for performance comparison purposes is the Bloomberg Barclays Capital Multiverse Index (hedged into Australian dollars). The option will seek to achieve its objective by investing primarily in a portfolio of fixed income securities and debt obligations (including convertible bonds) of government, government-related, securitised and corporate issuers worldwide. Sub-investment grade and non-rated exposure may be up to 50% of the portfolio and may take the form of emerging market debt or high yield credit exposure. The option may also invest in securities linked to the assets or currencies of any nation. The option may purchase foreign currency denominated fixed income securities, debt obligations, and may also invest in derivatives.

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	4 / Medium
Investment style	Specialist - Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	75.70
Cash	N/A	24.30

Sector Allocation	%
International Government / Agency Bonds	75.17
Corporate Bonds	0.00
Sovereign Bonds	0.00
Derivatives	0.53
Cash & Cash Equivalents	24.30
Other	0.00

Regional Allocation	%
Australia / NZ	0.00
Japan	22.03
Developed Asia (ex Japan)	6.81
Europe (ex-UK)	6.36
United Kingdom	0.00
North America	0.00
Middle East & Africa	4.07
Emerging / Frontier Europe	0.00
Latin & South America	26.42
Emerging / Frontier Asia	9.49
Other	24.82

Top Holdings	%
Government of Indonesia, senior bond, FR61, 7.00%, 5/15/22	7.46
Government of Mexico, senior note, M, 7.25%, 12/09/21	6.06
Government of Mexico, senior bond, M, 6.50%, 6/09/22	5.14
Korea Treasury Bond, senior note, 1.875%, 3/10/22	4.03
Letra Tesouro Nacional, Strip, 1/01/22	3.68
Government of Ghana, 24.75%, 7/19/21	2.40
Titulos de Tesoreria, senior bond, B, 7.50%, 8/26/26	2.31
Government of Norway, 144A, Reg S, 2.00%, 5/24/23	2.09
Government of Norway, 144A, Reg S, 3.75%, 5/25/21	1.95

Portfolio Summary

- The portfolio's net-positive position in the Japanese yen also detracted from absolute results.
- The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets.
- Select duration exposures in Latin America (Argentina, Mexico and Colombia), Asia ex Japan and Africa (Ghana) contributed to absolute results.

Investment Option Commentary

In the second quarter of 2020, currency positions detracted from the portfolio's absolute performance. Interest-rate strategies contributed to absolute results, while overall credit exposures had a largely neutral effect. Amongst currencies, positions in Latin America detracted from absolute performance (the Argentine peso detracted, while the Colombian peso contributed). The portfolio's net-positive position in the Japanese yen also detracted from absolute results. However, currency positions in Asia ex Japan (the Indonesian rupiah) contributed to absolute performance, as did positions in northern European currencies (the Norwegian krone). The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Select duration exposures in Latin America (Argentina, Mexico and Colombia), Asia ex Japan and Africa (Ghana) contributed to absolute results.

Market Commentary

Global financial markets rallied during 2020's second quarter as central banks and governments deployed massive monetary and fiscal measures to respond to the COVID-19 crisis. Regional economies began to incrementally reopen, and improving economic data appeared to bolster optimism that the worst of the economic shocks were behind us. However, sharp resurgences in COVID-19 cases in several regions prompted some governments to return to shutdown policies. The yield on the 10-year US Treasury note briefly spiked to 0.90% in early June on surging reflation expectations, but quickly retraced below 0.70%, finishing the quarter at 0.66%, one basis point (bp) lower than its 0.67% yield at the end of March. Sovereign bond yields generally declined as several central banks continued to cut rates during the quarter. The US dollar was broadly weaker against most developed and emerging market currencies, with some notable exceptions that included the Argentine peso and Brazilian real.

Outlook

The Fund Manager think it is still too early to pursue additional risk as the world is still in the first phase of the economic repercussions. They're currently focusing on specific perceived safe-haven investments, while emphasising a select set of higher-yielding emerging markets that have relatively resilient domestic economies. Their aim is to position their strategies to be uncorrelated to vulnerable asset classes while delivering high income and defending capital. They are also emphasising elevated levels of cash and short-term US Treasuries to be able to quickly pursue opportunities as they arise. They currently remain cautious on the broad outlook for emerging markets as a whole, but they see risk-adjusted value in specific countries. It remains crucial to be selective. Countries that were in stronger fundamental shape before the crisis generally have better prospects to endure the substantial economic headwinds.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1851AU
AMP Flexible Super - Retirement account	AMP1871AU
AMP Flexible Super - Super account	AMP1867AU
CustomSuper	AMP1851AU
Flexible Lifetime - Allocated Pension	AMP1855AU
SignatureSuper	AMP1859AU
SignatureSuper Allocated Pension	AMP1863AU
SignatureSuper Select	AMP1859AU

Contact Details

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



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