AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 September 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: www.amp.com.au/performance

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested Investment timeframe	5 years
Relative risk rating	5 / Medium to High
Investment style	Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	95.0
Aust. Fixed Interest	N/A	4.5
Cash	N/A	0.5

Sector Allocation	%
Investment Grade Corporates	46.3
Global Sovereign	18.1
Securitised	11.6
Emerging Markets	11.6
High Yield Credits	8.8
Other (inc. Derivatives & Currency)	3.5

Regional Allocation	%
North America	41.3
Europe (excl. Great Britain)	26.7
Other (incl. Supranationals)	13.8
Great Britain	7.7
Japan	4.7
Australia & New Zealand	3.7
Latin America	1.7

Top Holdings	%
AB SICAV China Bond	2.8
South Africa 2030 Bond 8% 01/31/30	1.6
Australia Bond 3% 03/21/47	1.3
Export Development Canada 2.8% 5/31/23	1.2
EIB 4.75% 08/07/2024	1.1
Nordic Invest Bank 4.75% 02/28/24	1.0
German Note 4.25% 01/24/23	1.0
Czech Republic Note 1.25% 02/14/25	1.0
Colombia Note 5.75% 11/03/27	0.9
Italy Bond 1.8% 03/01/41	0.9

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 the relative outperformance during the quarter. This was largely the result of the long positions in investment-grade and high-yield credit, as the rally across risk assets continued and was balanced by central bank bond-buying programs and positive signs of economic recovery. The shift toward euro-denominated credits also helped, as European corporate bonds overall outperformed their US peers. Exposure to credit risk–transfer securities (CRTs) contributed—particularly in the mezzanine tranches—as they recovered from their July declines. Exposure to commercial mortgage-backed securities (CMBS) further contributed. An allocation to hard-currency emerging markets (EM) added to returns in August as the market continued to rally amid supportive technical signals; however, this was slightly offset in September as the market followed the weaker macro tone.

Country/yield-curve positioning was also additive. Australian duration positioning contributed—especially in the strategy's exposure in the long end part of the curve—amid a considerable yield rally; The investment manager's short in the 10-year part of the curve slightly offset some of these gains. Exposure to European periphery was positive amid the continued spread rally which was further fueled in Italy by the regional election results in September. Long duration in South Korea added to performance as yields fell in July and September. Local Chinese duration had a negative effect on returns, as Chinese rates underperformed global peers amid strengthening economic momentum.

Currency decisions detracted. The strategy's long position in the Russian ruble was negative, as the currency depreciated amid the rising geopolitical risk in Russia. Their short position in the US dollar further hampered returns, as previous weeks' US dollar weakness reverted in September amid rising demand for quality and safety. However, their short positions in the yen and New Zealand dollar helped offset some of these losses, as did their long on the South Korean won.

Market Commentary

The rally in fixed-income markets following the sharp sell-off in March continued in the third quarter, but the pace of the rebound slowed and volatility increased toward the end of the period. As COVID-19 cases accelerated in Europe, the US and other developed-market (DM) countries, investors became increasingly concerned that the resurgence of the novel coronavirus could result in renewed lockdowns and restrictions. Also, uncertainty increased around much-needed additional fiscal spending proposals, particularly in the US, even as central banks reiterated that more fiscal spending is imperative. Rock-bottom official rates and significant central bank bond-buying programs kept interest rates anchored at historically low levels and supported credit-risk assets as investors reached for yield.

Global treasury returns were positive as yield curves remained stable or flattened in most DM countries. Nongovernment-sector returns outperformed government bonds, led by high-yield corporate bonds. This performance was true more so in the eurozone than in the US, given significant bond-buying support from the ECB compared with the US Federal Reserve. In securitized assets, CMBS outperformed, while CRTs generally advanced relative to global treasuries. EM hard-currency sovereigns outperformed global treasuries as the US dollar fell against most EM and all major DM currencies.

Outlook

The economic outlook has improved, yet it remains highly uncertain due to the unrelenting impact of the pandemic on economic output. Given the recent acceleration of cases in Europe, the US and other DM areas, we may be closer to the beginning than to the end of the pandemic's economic impact, supporting the need for additional fiscal stimulus. Geopolitical conflicts are ever present, including Brexit, ongoing trade and technology conflicts between the US and China, and the impact of protectionism and deglobalization on supply chains, world trade and business sentiment.

Given the positive recovery in economic output, which has been offset by elevated trade and geopolitical conflicts, The investment manager have revised their global GDP estimate upward to a smaller contraction of 4.3% in 2020, followed by a recovery of 4.7% in 2021. Their growth assumptions are based on DM and EM GDP growth of (5.5)% and (2.4)%, respectively, with rebounds of 3.7% for DM and 6.4% for EM in 2021.

Availability

Product name	APIR
AMP Flexible Lifetime Super*	AMP2022AU
AMP Flexible Super - Retirement account*	AMP2027AU
AMP Flexible Super - Super account*	AMP1997AU
CustomSuper*	AMP2002AU
Flexible Lifetime - Allocated Pension*	AMP2036AU
Flexible Lifetime Investment (Series 2)	AMP1997AU
SignatureSuper*	AMP2007AU
SignatureSuper Allocated Pension*	AMP2014AU
SignatureSuper Select*	AMP2007AU

*Close to new investors

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