

Franklin Templeton Multi-Sector Bond

Quarterly Investment Option Update

31 December 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/performance

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested Investment timeframe	5 Years
Relative risk rating	6 / High
Investment style	Specialist - Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	81.71
Cash	N/A	18.29

Sector Allocation	%
Local Currency Government/Agency Bonds	68.21
Non-Investment Grade	14.95
Sovereign Bonds	2.00
Derivatives	-3.45
Cash & Cash Equivalents	18.29

Regional Allocation	%
Australia / NZ	0.00
Japan	19.37
Developed Asia (ex Japan)	10.91
Europe (ex-UK)	8.40
United Kingdom	0.00
North America	0.00
Middle East & Africa	5.80
Emerging / Frontier Europe	0.00
Latin & South America	31.17
Emerging / Frontier Asia	9.50
Other	14.85

Credit Quality Allocation	%
AAA	8.40
AA	9.50
A+	19.37
BBB+	14.49
BBB	12.97
BBB-	3.47
Non-Investment Grade	16.97
Cash	18.29
NA	-3.46

Portfolio Summary

- Currency positions contributed to the portfolio's absolute performance, followed by interest-rate strategies.
- The portfolio's Australian-dollar hedge functioned as designed during the quarter, providing Australian investors with a return in Australian dollars (AUD) that approximates the return a US investor would receive in US dollars.
- Franklin Templeton continues to expect the euro to weaken against the USD given negative rates, as well as greater headwinds to growth and reflation efforts in Europe. Sovereign bond yields declined in much of core Europe, Latin America and Asia, notably Brazil, Mexico, Colombia, Indonesia and India

Investment Option Commentary

In the fourth quarter, currency positions contributed to the portfolio's absolute performance, followed by interest-rate strategies. Overall credit exposures had a largely neutral effect on absolute results.

In currency markets, the USD broadly weakened against major developed market and emerging market currencies alike during the quarter. Positions in northern European currencies (the Norwegian krone and Swedish krona) contributed to absolute performance, as did the portfolio's net-positive positions in the Japanese yen and the Swiss franc. They expect the Japanese yen to appreciate against the USD in upcoming months given Japan's strong external balance.

Currency positions in Asia ex Japan (the Indonesian rupiah) and Latin America (the Colombian peso) also contributed to absolute performance. However, the portfolio's net-negative position in the euro detracted from absolute results, as did its tactical positioning (negative) in the Mexican peso. They continue to expect the euro to weaken against the USD given negative rates, as well as greater headwinds to growth and reflation efforts in Europe.

Sovereign bond yields declined in much of core Europe, Latin America and Asia, notably Brazil, Mexico, Colombia, Indonesia and India. 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 and Mexico) contributed to absolute performance. On the duration front, Franklin Templeton continues to see value in specific local-currency emerging markets, specifically in countries with domestically driven economies that are less vulnerable to external shocks.

The portfolio's Australian-dollar hedge functioned as designed during the quarter, providing Australian investors with a return in Australian dollars (AUD) that approximates the return a US investor would receive in US dollars. Since the AUD appreciated 7.68% against the US dollar during the quarter, the hedge into AUD had a positive effect for AUD-based investors. The AUD appreciated 9.88% against the US dollar for the one-year period ended 31 December 2020.

Market Commentary

Risk assets initially rallied during the first couple weeks of 2020's fourth quarter, before broad risk aversion sharply returned in the second half of October. Investors appeared concerned over resurgent waves of COVID-19 cases around the world. However, market sentiments improved in November on apparent optimism over promising vaccine trials and prospects for a potential global economic recovery in 2021. Risk assets broadly rallied in November, as well as December as initial vaccine distributions commenced.

In currency markets, the US dollar broadly weakened against major developed market and emerging market currencies alike during the quarter. Sovereign bond yields declined in much of core Europe, Latin America and Asia, notably Brazil, Mexico, Colombia, Indonesia and India.

Outlook

Franklin Templeton are optimistic for the potential effectiveness of vaccine distributions in 2021, which they expect to incrementally support a rebound in economic activity midway through the year. They anticipate being constructive in a number of regions as the world transitions towards a post-COVID era, with a particular focus on areas of Asia that have addressed the health crisis and economic crisis more effectively.

However, it remains crucial to be highly selective as there is wide variance in how countries have contained COVID-19, handled fiscal and monetary policy, and supported their economies.

Environmental, social and governance factors will play a major role in rebuilding the post-COVID world. Social cohesion and good governance have the power to accelerate a country's post-crisis recovery, or the lack thereof can stymie it.

Availability

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

*Closed to new investors

Contact Details

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



What you need to know

This publication has been prepared by AWM Services Pty Limited ABN 15 139 353 496, AFSL No. 366121 (AWM Services). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying investment manager only and not necessarily the views of AMP Limited ABN 49 079 354 519 (AMP Group). No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information.

The investment option referred to in this publication is available through products issued by N.M. Superannuation Proprietary Ltd ABN 31 008 428 322, AFSL 234654 (NM Super), AMP Capital Funds Management Limited ABN 15 159 557 721, AFSL 426455 (AMPCFM) and/or ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac). Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement (PDS) for the relevant product, available from the issuer or your financial planner.

Any advice in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner. In providing any general advice, AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in. The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither NM Super, AMPCFM, ipac, AWM Services, any other company in the AMP Group nor the underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document, unless expressly stated in the PDS. Past performance is not a reliable indicator of future performance. Any slight asset allocation deviations from 100% may be caused by rounding, asset categorisation and/or hedging.