AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31 March 2021

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/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	87.8
Australian Fixed Interest	N/A	9.0
Cash	N/A	3.2

Sector Allocation	%
Investment Grade Corporates	36.5
Global Sovereign	22.8
Emerging Markets	14.2
Securitised	10.9
High Yield Credits	9.6
Other (inc. Derivatives & Currency)	6.0

Regional Allocation	%
North America	42.2
Europe (excl. Great Britain)	27.6
Australia & New Zealand	10.3
Other (incl. Supranationals)	9.4
Great Britain	5.4
Latin America	3.4
Japan	1.8

Top Holdings	%
Germany I/L .1% 04/15/2026	4.2
AB SICAV China Bond	3.4
Australia Bond 4.25% 04/21/2026	3.4
Canada Housing Trust No. 1 1.95% 12/15/25	2.6
Italy .95% 09/15/2027	2.5
Hungary 1.5% 04/22/2026	1.9
Australia Bond 3.75% 04/21/37	1.9
Australia Bond 2.75% 06/21/35	1.9
Canada Housing Trust No. 1 1.8% 12/15/24	1.6
Australia Note 1% 12/21/30	1.0

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

Country/yield-curve positioning detracted from relative performance. The portfolio's duration exposure in Australia was negative. The global yield sell-off and steeper curves in January and February hampered performance through the long-end duration exposure in Australia. The underperformance was partially offset in March as rates rallied, driven by the Reserve Bank of Australia's (RBA) dovish stance suggesting that there will be no rate increase for a considerable time. The portfolio's long position in US duration detracted as US Treasury returns were negative. The Georgia election results set the backdrop for a steeper curve and higher US yields. A long position in UK duration also detracted, as yields followed the global trend and rose over the quarter.

Currency decisions detracted over the period. The portfolio's long position in the Turkish lira was negative as the currency depreciated significantly after the news about President Erdogan's abrupt replacing of the Central Bank governor. Long positions in the Brazilian real, Colombian peso and Mexican peso also detracted. However, the underperformance was partially offset by short positions in safe-haven currencies, especially the yen and Swiss franc, as well as a short position in the Polish zloty.

Sector/security selection contributed during the quarter. Allocations to investment-grade and high-yield credit contributed, as rising growth expectations have been underpinning growth-sensitive assets. Exposure to eurozone inflation-linked securities also contributed, as breakevens continued to widen over the period. Exposure to credit risk–transfer securities (CRTs) was a contributor amid the continued positive trend in the US housing market which is benefiting from very strong technicals where supply is limited, and demand is high. Select emerging-market (EM) corporate exposure also had an overall positive impact on performance. Finally, an allocation to US commercial mortgage-backed securities (CMBS) helped performance, as commercial mortgages have done very well and continue to benefit from positive news around vaccine development as well as investors' continued search for yield and a decline in delinquencies.

Market Commentary

Fixed-income markets saw longer-term developed-market (DM) yields rise meaningfully during the first quarter, based on the improving global economic growth outlook and increased inflation expectations that were partially driven by the passage of the $1.9 trillion fiscal stimulus package in the US. The rollout of COVID-19 vaccines boosted investor confidence despite the advent of more contagious mutations and renewed lockdowns in some regions. The rise in longer-maturity DM bond yields varied across the globe, based on different expectations for growth and inflation and the varying success of vaccination programs. Central bank responses also varied. The US Federal Reserve (the Fed) has thus far viewed rising yields as manageable and a positive sign due to the economic rebound, while the European Central Bank (ECB), the Bank of Japan and the Reserve Bank of Australia (RBA) reinforced their desire to control borrowing costs. Central bankers across the board in DM have reiterated that monetary policy will remain accommodative for the foreseeable future and that short-term interest rates will remain firmly anchored until inflation is consistently at or above target, fueling investor demand for higher-yielding assets.

DM government bond returns were negative as yield curves steepened in all major markets. In the UK, 10-year rates inflated by 65 basis points (b.p.) to 0.84%. The 10-year US Treasury yield increased by 78 b.p. to 1.74%, while equivalent maturity rates moved higher in Canada by 88 b.p. to 1.56%, and in Australia by 82 b.p. to 1.79%. Japanese government debt fell the least as 10-year bonds rose only by 9 b.p. to 0.09%, while 10-year government rates in the eurozone increased more moderately due to renewed ECB intervention. German 10-year Bunds increased by 28 b.p. to (0.29)%. In Spain and Italy, 10-year rates rose by 29 b.p. to 0.34% and by 13 b.p. to 0.67%, respectively.

DM high-yield corporate bonds posted positive returns and outperformed DM government bonds. DM investment-grade corporate bonds fell but also outperformed DM government debt. Securitized asset returns were mixed among commercial mortgage-backed securities (CMBS), which rebounded on the news around vaccines and declining—and therefore stabilizing—delinquencies. Returns were positive for credit risk–transfer securities (CRTs), which continued to benefit from the strong housing market and very solid fundamentals. EM corporate bonds outperformed DM government bonds, while EM hard-currency sovereigns trailed. EM local-currency bonds fell the most as the US dollar gained against most major DM and EM currencies, and due to idiosyncratic events in Turkey and Brazil, which have large weights in the local-currency sovereign index. Brent crude oil prices increased by 23% during the quarter, while copper advanced 14%. Gold fell about 10% after a strong performance in 2020.

Outlook

The global economic outlook continues to improve, with projections by economists for higher global growth in DM and EM later in the year as the pandemic eases and economies normalize. Our expectation is that US and other DM rates may drift higher over the remainder of 2021, albeit at a slower pace than in the first quarter. While we anticipate that intermediate-term inflation post-2021 will remain in check, we believe that core inflation in the US could reach 2.1% by year-end from cumulative fiscal stimulus that drives US output toward pre-pandemic levels. Year-over-year inflation comparisons in coming months in DM and EM markets will be distorted by the fall in economic output during the initial months of the pandemic, providing a very low base to start from and resulting in higher year-over-year changes. Higher input costs from commodities, supply-chain and shipping disruptions from shifts in consumption patterns are likely to moderate next year as DM consumer demand rotates from durables to services. The real unemployment rate in DM has been masked by a decrease in labor participation rates and furlough programs designed to keep workers on payrolls. DM inflation will likely remain contained as long as labor markets have not fully recovered.

Availability

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

**Closed to new and existing investors

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