BlackRock Global Bond

Quarterly Investment Option Update

31 March 2021

Aim and Strategy

To generate capital and income return for investors seeking exposure to international fixed income markets, including Australia. The option aims to outperform the Bloomberg Barclays Global Aggregate Index (Australian dollar hedged) over rolling three-year periods. The option invests predominantly in international debt securities and foreign currency exposures. These include a broad universe of investment instruments, including fixed interest securities, mortgage securities, asset-backed securities, derivatives, repurchase agreements, stock lending and units in pooled investment funds.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
International Fixed Interest and Cash	100	100

Sector Allocation	%
Government	44.58
Corporate	21.38
Securitised	32.51
Other	1.53

Regional Allocation	%
UK	3.19
Europe (ex UK)	17.24
North America	45.09
Japan	6.85
Asia (ex Japan)	2.13
Other*	25.5

*includes EM exposure and Cash

Quality Allocation	%
AAA	33.36
AA	11.63
A	22.76
BBB	18.37
BB>	8.47
Not Rated/Cash	5.41

Portfolio Summary

The Fund outperformed its benchmark over the quarter driven by macro rates strategies and spread sectors through exposure to securitized assets. Macro rates strategies ended the period with positive alpha notably an underweight to US and UK duration led the outperformance along with an overweight to Italy and Greece sovereign debt. Additionally, off-benchmark exposure to US inflation-linked bonds and yield curve positioning in Canada also contributed to returns. In contrast, yield curve positioning in the US, UK, Australia and Germany detracted, as did overweight allocations to Australia and Canada duration, and an underweight to Japan sovereign debt. Furthermore, an underweight to Germany duration detracted along with off-benchmark allocation to UK inflation-linked bonds.

Within credit strategies, the main contributors included overweight allocations to securitized assets, predominantly through US CMBS and ABS, and select high yield names. The Fund's overweight exposure to US dollar denominated investment grade industrials and underweight to senior financials also added to returns.

Developed market active currency positions posted positive returns overall, with the main contributors being short euro, Swiss franc and Swedish krona and long US dollar positions. This was partially offset by long Japanese yen and short Canadian dollar positions. Emerging market strategies posted negative returns led by an overweight allocation to Mexico local currency government bonds and an overweight allocation to emerging market hard currency debt. This was partially offset by the fund's underweight exposure to Thailand local currency government bonds. Emerging market currency positioning posted flat returns over the quarter.

Investment Option Commentary

The tone in financial markets has been one of a renewed sense of optimism about global growth, albeit differentiated between countries and regions, and raised expectations about a pickup in inflation. The most significant moves in financial markets came from developed market government bond markets with yields selling off sharply across regions including Australia, the UK, the US and Germany. While the magnitude of the sell-off varied across different countries, the moves were broadly synchronised and driven by expectations of faster real economic growth as vaccines are rolled out and lockdown measures are eased. This is against a backdrop of still ultra-accommodative stimulus from central banks, and financial markets have begun to reprice the prospect of this being recalibrated in the coming months and quarters.

The US Federal Reserve (Fed) has deliberately been very careful with its communication and this was once again the case with the Federal Open Market Committee (FOMC) meeting in March. The Fed stressed the importance of realised inflation, emphasizing the significance of its average inflation target policy, while talk of tapering it's bond purchasing programme was dismissed as too early. There also appears a degree of comfort with the recent rise in yields to the extent that these moves are not "disorderly". Financial market expectations of the first Fed rate hike have indeed been brought forward despite the Fed's more dovish rhetoric.

In Europe, the European Central Bank (ECB) kept its monetary policy stance unchanged. The accompanying statement did, however, note a higher pace of asset purchases under the pandemic emergency purchase programme (PEPP). They reiterated the need to maintain favourable financial conditions in light of the negative impact of the pandemic, and measures to contain it, on the path of inflation. The ECB now forecasts 4% GDP growth for the eurozone this year and 1.5% HICP inflation. The rollout of the vaccine is the crucial factor that should help facilitate a strong rebound, in tandem with supportive financial conditions and fiscal stimulus measures. In emerging markets, Turkish assets sold off sharply on the back of the dismissal of governor Naci Agbal who was replaced by party loyalist Sahap Kavcioglu. Pass-through to other emerging market assets was however quite limited.

Riskier assets such as emerging market debt came under pressure over the course of the quarter given the rise in developed market government bond yields. Areas such as high yield fared relatively better and were broadly range-bound in total return terms. Indeed, the principal driver of higher government bond yields was positive expectations around economic growth which helped underpin risk sentiment. Investment grade credit spreads tightened although total returns were negative, driven by government bond yields. Energy prices rallied strongly over the course of the quarter given the more constructive backdrop for demand as vaccines are rolled out. Relatedly, the strongest performing currencies included the Canadian dollar and the Norwegian krone which were both supported by the rally in energy prices, while sterling also outperformed most other G10 currencies. The weakest performing currencies were the Swiss franc and Japanese yen given the broadly positive risk backdrop.

Outlook

The massive fiscal stimuli across the globe are starting to find their way into consensus growth estimates. Corporate profits, sales revisions, forward guidance, and earnings surprises are all showing signs of an impending - and still underappreciated - economic boom. In fact, S&P 500 earnings are expected to surpass 2019 levels as soon as this year, with double digit growth the year after (and likely again the year after that). Therefore, it is expected a strengthening global economy will be driven by huge fiscal impulses, accommodative monetary policies and healthy economic fundamentals supported by the accumulation in personal savings.

In terms of monetary policies, it is anticipated that a more muted response of government bond yields to stronger growth and higher inflation will likely occur than in the past. While the direction of travel is likely to still be higher, central banks are likely to lean against any sharp yield rises which should be supportive for risk assets.

With a global economy marked by an accelerating real economic activity, valuations appear to be at elevated levels in some assets, but there is still likely tangible upside potential in many others. The fund is positioned in yielding assets - such that being pro risky assets - still makes sense in this economic backdrop.

For these reasons, in the Fund, a slightly pro-risk stance is being maintained and holds select exposure to emerging markets, investment grade and high yield bonds, and securitised assets while retaining a bias to a robust and diverse portfolio through holding income-generating assets in a risk-aware manner.

Finally, the fund continues to run a US duration underweight position on the view that valuations are still less attractive at current yield levels. However, it appears that we are getting closer to yield levels where duration can act as a hedge again. Markets may be underestimating the probability of an earlier-than-expected taper, while the stronger economic growth outlook, and the amount of further fiscal support expected to come through with a Democratic led White House, mean that it is expected that US Treasury yields will likely move modestly higher from here.

The fund is positioned to hold duration in other parts of the world, and has shifted some of its US duration into some European countries - particularly in Italy, as ramped-up economic policy responses from the ECB should continue to support those countries. The fund also maintains exposure to higher quality emerging markets countries such as China where it is believed that monetary policy will remain supportive despite the strong rebound in economic activity.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1467AU*
AMP Flexible Super - Retirement	AMP1338AU*
CustomSuper	AMP1102AU*
Flexible Lifetime - Super	AMP1102AU*
Flexible Lifetime - Allocated Pension	AMP1107AU*
Flexible Lifetime - Term Pension	AMP1111AU*
Flexible Lifetime - Investments (Series 1)	AMP1116AU**
Flexible Lifetime - Investments (Series 2)	AMP1403AU**
SignatureSuper	AMP1113AU*
SignatureSuper - Allocated Pension	AMP1142AU*

*Closed to new investors
**Closed to new and existing investors

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