BlackRock Global Bond

Quarterly Investment Option Update

30 June 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

Investment Option Overview

Investment Category	Global Fixed Interest
Suggested Investment timeframe	5 years
Relative risk rating	4 / Medium
Investment style	Core
Manager style	Single Manager

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

Sector Allocation	%
Government	42.85
Corporate	22.71
Securitised	34.27
Other	0.17

Regional Allocation	%
UK	3.11
Europe (ex UK)	17.67
North America	52.13
Japan	6.78
Asia (ex Japan)	0.91
Other*	19.40

*includes EM exposure and Cash

Quality Allocation	%
AAA	19.49
AA	26.99
A	19.35
BBB	19.64
BB>	10.37
Not Rated/Cash	4.16

Portfolio Summary

The Fund outperformed its benchmark over the quarter driven by spread sectors through exposure to securitized and emerging market assets.

Within credit strategies, the main contributors included overweight allocations to securitized assets, predominantly through US CMBS and ABS, and select high yield names. An overweight exposure to US dollar denominated investment grade industrials contributed, while an underweight to senior financials detracted from returns over the quarter.

Emerging market strategies posted positive returns over the quarter led by overweight allocation to China local currency government bonds and overweight allocation to emerging market hard currency debt. In addition, long South Korean won and Mexican peso currency positions also added. This was partially offset by overweight exposure to South Korea local currency government bonds.

The Fund's developed market active currency positions posted negative returns overall, with the main detractors being the short euro, Canadian dollar, Swedish krona and Swiss franc positions. This was partially offset by a short US dollar position.

Macro rates strategies ended the period with negative returns. Underweight to US and UK duration, and yield curve positioning in Canada and Japan led the underperformance over the month. Additionally, overweight to Italy sovereign debt detracted over the quarter. In contrast, yield curve positioning in the US, UK and Australia added, as did overweight to Canada and Australia duration. Within Europe, underweight to Germany and France duration contributed along with overweight to Greece government bonds.

Investment Option Commentary

Financial market asset prices moved higher over the second quarter as the resumption of economic activity broadens. Vaccine rollout programmes have reached their later stages in major economies allowing governments to remove lockdown restrictions despite concerns over the Delta variant. While cases have risen, hospitalizations have remained relatively lower, largely driven by the efficacy of vaccines. It is also notable that environmental, social and governance (ESG) themes, in particular sustainability, have become more prominent in international and geopolitical political headlines. The focus from central banks remains on normalising policy, and that this is well communicated ahead of time to avoid any market disruption.

The most significant development over the quarter came from the US where the Federal Open Market Committee (FOMC) surprised markets with a hawkish shift in its projection for future rates (the "dot plot"). Indeed, the expected date for raising interest rates was brought forward to two hikes in 2023 from zero in March of this year. Seven FOMC participants also now expect a hike by the end of 2022, up from four in March. While further acknowledging that tapering was on the horizon, Chair Jerome Powell indicated that they are still not at the stage of "substantial further progress" that is needed to begin. This is against a backdrop of rising inflation with core CPI (which excludes volatile food and energy items) posting an increase of 0.9% in April – the highest rate since the early 1980s.

In Europe, the European Central Bank (ECB) confirmed its very accommodative policy stance by maintaining a "significantly higher" PEPP purchase pace over the coming quarter, in line with expectations. Total asset purchases will continue to run at a net pace of €100bn/month until September 2021. Business activity surged in June as the region catches up with the restart that has been led by the US and UK. In emerging markets, further evidence of a slowdown from China has surfaced with business activity shown to be weaker than expectations across purchasing manager indices (PMI's) and with Q1 2021 GDP growth falling 5.1% quarter-on-quarter in annualized terms. In India, Covid-19 cases have now decreased sharply, although this has yet to come through in the economic data with services PMI's, for example, still softer and posting a reading of 41.2 in June (below 50 represents a contraction).

Riskier assets generally rallied over the quarter, despite the shift to a more hawkish stance from major central banks such as the US Federal Reserve (Fed). The outperformance was led by emerging market debt which lagged other areas over the first quarter. High yield and investment grade markets also posted positive returns in credit markets. After a sharp move higher over the first quarter, developed market government bond yields generally rallied over the month, led by the outperformance of US Treasuries. The strongest performing G10 currencies were the Swiss franc and the Swedish krona with both partially offsetting some of their losses from the first quarter. Energy prices rallied over the quarter on the back of continued optimism around demand and still well-contained OPEC+ supply.

Outlook

At June’s FOMC meeting, the Committee revealed more expected tightening and further steps toward tapering asset purchases than they had previously. BalckRock see these as steps in the right direction. In fact, even with the eventual tapering of asset purchases, and subsequent moderate increase in interest rates, the manager thinks it is clear that the backdrop for the economy will generate significant employment improvement. BlackRock do not therefore think that tapering the QE program will create tangible stress to the economy or markets.

Instead, BlackRock thinks that the biggest risk today would be an overheating paradigm where it is hard to predict how high input, or wage, costs could get. The manager is quite confident that inventory levels will be rebuilt over the coming year and beyond, and that the drivers of the current elevated levels of inflation (e.g. semiconductor chip shortages, used cars, airfares, lodging, etc.) will eventually be brought into balance after the reopening process is completed. However, this presumes that the elevated wages offered to bring potential workers back into the fold will not have a dramatic, or longstanding, impact on inflation. Hence, the manager agrees with the Fed that most of the elevated inflation we are seeing today is, in fact, transitory.

Still - although BlackRock believe that the markets will ultimately cheer a return to normalcy - They think continuing to infuse the system with too much liquidity does threaten to challenge this set of economic conditions. Against a backdrop of tight valuations, markets on a shorter-term basis are likely to adjust accordingly in some areas.

For this reason, in the Fund, BlackRock are somewhat less bullish than they have been in prior months. That said, BlackRock still think there are many opportunities to generate positive returns - they simply require a different portfolio construct approach to what we have recently been accustomed to.

Overall, BlackRock maintain a slightly pro-risk stance with select exposure to emerging markets, investment grade and high yield bonds, and securitised assets with a strong overall focus on security selection given the dispersion across asset classes and within sectors. In this environment, BlackRock think that portfolio construction needs to be more nimble, coupled with greater asset-selection diligence and generally higher levels of cash (to take advantage of potential opportunities that present themselves).

Finally, given the strong economic outlook and record high US treasury net supply, the manager maintains the view that treasury yields have likely not seen their highs this year. The fund continues to hold our underweight exposure to US duration.

Availability

Product name	APIR
AMP Flexible Lifetime Super*	AMP1102AU
AMP Flexible Super - Retirement account*	AMP1338AU
AMP Flexible Super - Super account*	AMP1467AU
CustomSuper*	AMP1102AU
Flexible Lifetime - Allocated Pension*	AMP1107AU
Flexible Lifetime - Term Pension*	AMP1111AU
Flexible Lifetime Investment**	AMP1116AU
Flexible Lifetime Investment (Series 2)**	AMP1403AU
SignatureSuper*	AMP1113AU
SignatureSuper Allocated Pension*	AMP1142AU

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

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