BlackRock Global Bond

Quarterly Investment Option Update

30 September 2021

Aim and Strategy

To generate capital and income return for investors

Investment Category	Global Fixed Interest
Suggested Investment timeframe	2 years
Relative risk rating	5 / Medium to high
Investment style	Core
Manager style	Single Manager

seeking exposure to international fixed income markets, including Australia. The option aims to outperform the Bloomberg Barclays Global Aggregate 500 Index (hedged in AUD) over rolling three-year periods. The option aims to achieve its investment objective by accessing the best ideas of the BlackRock Group's Global Fundamental Fixed Income Team located around the globe, which seek to add value by managing duration, yield curve, credit (e.g. mortgage backed, corporates, agencies and emerging markets) and individual security, country and currency exposures against the benchmark. The investment strategy is actively managed within a rigorous risk management framework. The option's portfolio is continually monitored and, where necessary, adjusted to suit changing economic and market conditions. Great importance is placed on research and a team based approach to making investment decisions. In seeking to access a broad array of enhancement strategies, the investment strategy may utilise proprietary research-based knowledge, fundamental macro-economic and credit, sector and security analysis. The management of risk is central to the option's investment process. Exposures are reviewed on an on-going basis, to ensure the option maintains a risk/reward profile appropriate to changing market conditions and the degree of confidence BlackRock have in return expectations. Currency is actively managed in the option around a fully hedged Australian dollar benchmark.

Investment Option Performance

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

Investment Option Overview

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	100	100
Cash	0	0

Sector Allocation	%
Government	41.37
Corporate	20.99
Securitised	37.46
Other	0.19

Regional Allocation	%
UK	2.28
Europe (ex UK)	17.50
North America	52.61
Japan	6.61
Asia (ex Japan)	0.91
Other*	20.9

*includes EM exposure and Cash

Quality Allocation	%
AAA	19.29
AA	29.08
A	21.81
BBB	19.98
BB>	7.56
Not Rated/Cash	2.28

Portfolio Summary

The Fund underperformed its benchmark over the quarter driven by its macro rates strategies.

Macro rates strategies ended the period with negative returns. The fund's underweight exposure to US and Germany duration, off-benchmark allocation to UK inflation-linked bonds and yield curve positioning in Germany, Australia and UK led the underperformance over the quarter. In contrast, the fund's yield curve positioning in the US and Japan added, as did the fund's underweight to UK duration, and overweight exposure to Canada, Italy, and Spain duration. Additionally, the fund's underweight exposure to US inflation-linked bonds contributed to performance.

The fund's developed market active currency positions posted positive returns overall, with the main contributor being its long US dollar position. This was partially offset by the fund's short Canadian dollar and long sterling positions.

Within credit strategies, the main contributors included the overweight allocations to securitized assets, predominantly through US CMBS and ABS, and select high yield names. The fund's underweight exposure to euro denominated investment grade industrials also added, while its overweight exposure to US dollar denominated investment grade industrials detracted from returns over the quarter.

Emerging market strategies posted positive returns over the quarter led by the fund's overweight allocation to China local currency government bonds and its long Mexican peso currency positions. This was partially offset by overweight allocation to emerging market hard currency debt, and overweight exposure to Mexico and Russia local currency government bonds.

Investment Option Commentary

The third quarter was relatively more volatile for financial markets driven by concerns around rising cases of the more transmittable Delta variant of Covid-19, rising developed market government bond yields on monetary policy normalisation speculation and fears of a default in Chinese property developer, Evergrande. Above-trend growth and rising inflation have paved the way for central bank policy to move away from the ultra-loose emergency measures still in place currently, to something more 'normal', most notably with the US Federal Reserve (Fed) tapering its asset purchase program. Meanwhile, the Norges bank in Norway became the first G10 central bank to hike interest rates since the Covid-19 pandemic began with several other central banks expected to follow suit or having done so already, including the Reserve Bank of New Zealand in October.

In the US, the September Federal Open Market Committee (FOMC) meeting saw Fed Chair Jerome Powell reemphasizing that both he and most Committee participants now consider the test of "substantial further progress" toward the inflation mandate to be largely satisfied, while some believe there is further to go toward the goal of maximum employment (particularly in light of August's weaker jobs growth, and the late-summer rise in Covid-19 cases). Similarly, the European Central Bank (ECB) decided to reduce the pace of asset purchases under its pandemic emergency purchase program (PEPP) for the fourth quarter as expected. The outcome of the central bank's Strategy Review, the first since 2003, was also published in July where the inflation target was revised slightly higher to a 'symmetric 2% inflation target over the medium term'.

China meanwhile is experiencing a slowdown in economic growth, driven by its zero tolerance Covid-19 approach and rolling energy shortages after a spike in coal prices. The most significant development however came from Evergrande - the second largest property development company in China. The company was unable to meet a payment on one of its bond obligations as the company struggles to handle its $305 billion in outstanding liabilities. Issues initially arose when the Chinese government imposed a variety of policy tightening measures which led to a significant slowdown in the volume of real estate sales and a lack of financing in the housing sector. The Chinese property sector accounts for 20% of the country's GDP (adjusted for upstream/downstream consumption and investment).

While the third quarter was mostly characterised by volatility in financial markets with some significant intra-quarter moves, many asset class prices ended the quarter near to where they had begun. Developed market government bond yields, for example, mostly rallied in July, before rising in the second half of August and September. Similarly, areas of riskier assets such as high yield credit rallied in the second half of August and into the beginning of September, before selling off in the second half of September. It was also a similar story for investment grade markets and emerging market debt. These moves were driven by the aforementioned factors around rising Covid-

19 cases, central bank policy normalisation and a slowdown in China. This also meant that safe haven currencies such as the Japanese yen and the US dollar were the strongest performing G10 currencies, while the Australian dollar was the weakest. Brent energy prices rallied given concerns around the persistent supply deficit driven by lower OECD inventories.

Outlook

There has been a great deal of uncertainty from some market participants over the potential market implications of the Fed's eventual tapering of asset purchases, but BlackRock think this is likely to have a minimal impact. While real yields are at record lows, the supply of financial assets is at record highs, suggesting robust demand for income-generating assets. In September alone, $625 billion of new supply is expected across US Treasury, credit and equity markets, which is considerably greater than average in recent years.

With the demand for income and financial assets that BlackRock are seeing - in combination with the enormous stock of liquidity in the system today – BlackRock believe that the modest tapering that is likely to be seen from the Fed is not consequential for markets. Critically, monetary policy in recent decades has been a tool used to spur demand higher, but the main problem today is a supply shortage, not one of weak demand, and supply cannot be 'stimulated' by monetary policy.

In China – given the recent turmoil – BlackRock think that the country may still offer targeted, high-growth opportunities for investment over the longer term. However, in the short run - given the evolving regulatory framework - BlackRock think it is important to remain cautious about where and how one takes advantage of investment opportunities.

In terms of portfolio positioning, the phenomenon of central banks crowding investors out of high-quality fixed income suggests that a degree of caution is required in some areas of the lower yielding part of the investment universe, while opportunities are available in some other areas where yields look more reasonable relative to inflation expectations. BlackRock think that emerging market debt should play a role within the portfolio construct and therefore BlackRock retain overweight exposure to the asset class. In addition, as securitized markets keep growing, products here can offer an additional such source of reasonable yield, especially on unique pools of assets that help with diversification.

In conclusion, BlackRock remain modestly pro-risk. BlackRock re-emphasize the importance of bottom-up security selection in this environment, combined with a strong understanding of liquidity and risk management, and an emphasis on stress testing and genuine portfolio diversification.

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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