

Franklin Templeton Multi-Sector Bond

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To maximise total investment returns consisting of a combination of interest income, capital appreciation and currency gains. The benchmark is the Barclays Capital Multiverse Index (Hedged into AUD).

The portfolio will seek to achieve its objective by investing primarily in a portfolio of fixed income securities and debt obligations of government, government-related, securitised and corporate issuers worldwide.

Sub-investment grade exposure may be up to 50% of the portfolio and may take the form of Emerging Market Debt or High Yield credit exposure.

The portfolio may also invest in securities linked to the assets or currencies of any nation. The portfolio may purchase foreign currency denominated fixed income securities and 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

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested investment timeframe	3 Years
Relative risk rating	Medium
Investment style	Active
Manager style	Single

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest		73.70%
Aust. Fixed Interest		
Cash		26.30%

Sector Allocation	%
International Government / Agency Bonds	71.74
Corporate Bonds	0.01
Sovereign Bonds	1.94
Derivatives	0.01
Cash & Cash Equivalents	26.30
Other	0.01

Regional Allocation	%
Australia / NZ	0.00
Japan	0.00
Developed Asia (ex Japan)	0.00
Europe (ex-UK)	0.00
United Kingdom	0.00
North America	0.00
Middle East & Africa	5.87
Emerging / Frontier Europe	0.00
Latin & South America	39.12
Emerging / Frontier Asia	28.72
Other	26.30

Top Holdings	%
Government of Indonesia, senior bond, FR61, 7.00%, 5/15/22	8.07
Letra Tesouro Nacional, Strip, 1/01/20	6.87
Korea Treasury Bond, senior note, 1.875%, 3/10/22	6.76
Government of Mexico, senior note, M, 7.25%, 12/09/21	3.72
Government of Thailand, senior bond, 5.50%, 8/13/19	3.70
Bank of Thailand Bond, senior note, 1.95%, 11/26/20	3.35
Government of Mexico, senior bond, M, 6.50%, 6/09/22	2.91
Nota do Tesouro Nacional, 10.00%, 1/01/27	2.87
Bank of Thailand Bond, senior note, 1.49%, 8/28/19	2.49
Government of Ghana, 24.75%, 7/19/21	2.09

Portfolio Summary

- The portfolio's positive absolute performance was primarily attributable to currency positions.
- The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets.
- Overall, we continue to maintain low portfolio duration while aiming at a negative correlation with UST returns. Looking ahead, we anticipate wage and inflation pressures in the US to drive UST yields higher.

Investment Option Commentary

In the second quarter of 2019, currency positions contributed to the portfolio's absolute performance, while interest-rate strategies detracted. Amongst currencies, positions in Latin America (the Mexican peso and Brazilian real) and Asia ex Japan contributed to absolute return, while the portfolio's net-negative position in the euro moderately detracted. The portfolio maintained a defensive approach regarding interest rates in developed markets, while holding duration exposures in select emerging markets. Negative duration exposure to USTs detracted from absolute results.

Market commentary

During 2019's second quarter, escalating trade tensions between the US and China in May led to a broad resurgence in global risk aversion that broke the pattern of rising yields and risk asset rallies seen in April. Sovereign bond yields around the world notably declined in May and June, while risk assets initially saw amplified volatility and sharp price declines before rallying on increasingly dovish comments from the US Federal Reserve (Fed) and European Central Bank in June. The US dollar broadly weakened against a majority of global currencies, with some notable exceptions. The yield on the 10-year US Treasury (UST) note declined 40 basis points during the quarter to finish at 2.01%, its lowest level since November 2016.

Outlook

In the US, we expect ongoing labour market strength and continued expansion of the US economy. US growth is likely to moderate from its 2018 pace, but remain at or above potential in 2019, in our view. We do not see economic conditions that indicate an imminent recession, or that justify rate cuts from the Fed. In Europe, growth and inflation remain subdued. We expect the euro to weaken against the US dollar given the differences in projected growth and the rate differentials between the US and the eurozone. Additionally, the euro remains vulnerable to unresolved structural and political risks across Europe. In emerging markets, we are focused on specific countries that are less externally vulnerable and more domestically driven, and that have orthodox fiscal and monetary policies. We continue to maintain low portfolio duration and negative duration exposure to USTs. We also continue to hold select local-currency positions in countries that we view as having healthy or improving fundamentals, along with attractive risk-adjusted yields.

Availability

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

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