ANZ Dynamic Fixed Income Portfolio

ANZ PRIVATE

Investment strategy and approach

The ANZ Dynamic Fixed Income Portfolio ('the Portfolio') invests in the ANZ Australian Fixed Income Portfolio and the ANZ International Fixed Income Portfolio to provide investors exposure to both Australian and international fixed income. The Portfolio aims to outperform the benchmark over the medium term of three years.

Portfolio construction of the ANZ Australian Fixed Income Portfolio focuses on investing in high quality fixed income assets taking advantage of changes in the direction of interest rates, changes in the distribution of securities across the maturities spectrum (yield curve) and managing the sector mix within the high quality investment universe. It may also invest in inflation-linked securities as and when value-adding opportunities are identified.

Portfolio construction of the ANZ International Fixed Income Portfolio focuses on investing in international fixed income covering both active and passive credit exposures and a passive sovereign exposure. Specifically these strategies include: passive international sovereign bonds (managed by Vanguard), passive international credit (managed by Vanguard), active broad international fixed income (managed by PIMCO), bonds (managed by Western Asset Management) and cash (managed by Western Asset Management).

ANZ dynamically tilts between the strategies and asset classes to optimise returns, preserve and to grow capital based on the view of ANZ's Regional Investment Council (RIC).

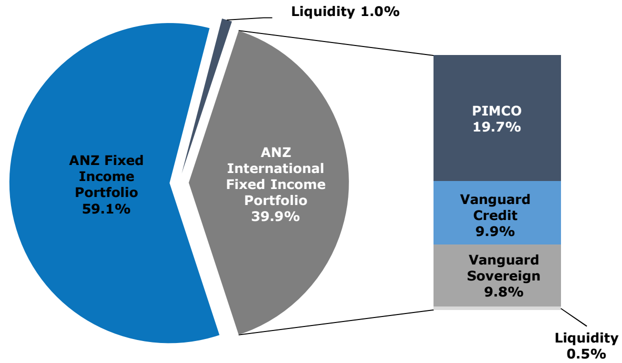
Portfolio performance (before fees and taxes)

	1mth	3 mths	1 yr	3 yrs (p.a.)	Since inception (p.a.)[2]
Total return - Australian Fixed Income Portfolio	-1.53%	-1.16%	7.66%	5.33%	4.40%
Total return - International Fixed Income Portfolio	-0.03%	-0.37%	8.00%	4.49%	4.68%
Portfolio total return	-0.93%	-0.85%	7.82%	4.98%	4.74%
Benchmark return[1]	-1.10%	-1.09%	7.24%	4.73%	4.56%
Total return relative to benchmark[1]	0.16%	0.25%	0.58%	0.25%	0.18%

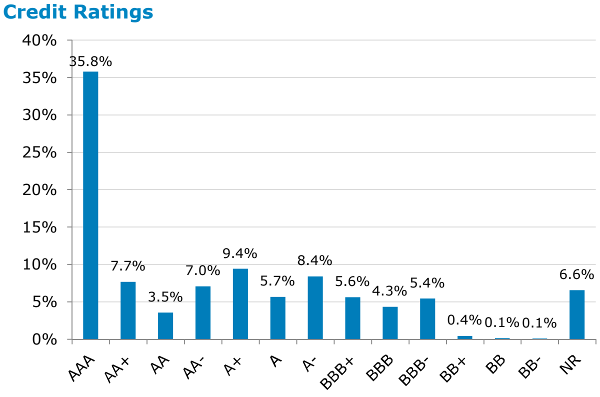
1. The benchmark is a weighted average return of 60% - Bloomberg AusBond Composite Bond Index, 40% - Barclays Global Aggregate Hedged to AUD.
2. Inception date is 19 November 2015.

Figures may not add up due to rounding.

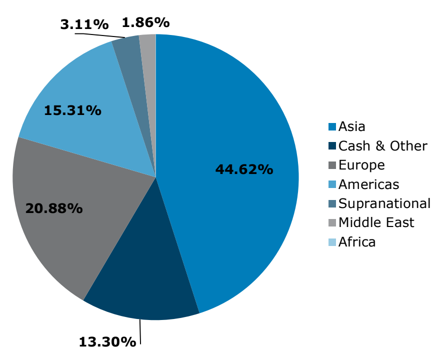
Allocation between assets



Credit Ratings



Regional investment mix



The above performance is based upon the Model Portfolio. Individual Portfolios may differ from this due to factors that include timing of implementation, cash flows and corporate actions.

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Market commentary

Global financial markets ended the year on a positive note, with global macroeconomic events that have plagued markets this year seemingly coming to a resolution. The US and China announced they had reached a “phase one” trade deal ending a series of retaliatory exchanges between the countries and the USMCA trade agreement was passed in the US House of Representatives. In the UK, Boris Johnson’s Conservative Party won a sizeable electoral majority, setting the UK on course to leave the EU at the end of January 2020, calming market fears of further uncertainty. Buoyed by the macroeconomic backdrop and the strong fundamentals, spread products, in particular high-yield corporates and bank loans, posted strong positive returns. The latter were helped by a pause in monetary policy easing from the Federal Reserve (Fed). Both local and hard currency EM bond yields fell during December as the global risk appetite returned following a period of uncertainty. Easing among EM central banks continued as Turkey, Brazil, Mexico and Russia, among others, cut rates; again this was a supportive move for bond markets. New issuance and M&A activity declined into year-end.

Domestic data released leading into year-end remained mixed and included the 3Q19 GDP which disappointed slightly at 0.4% quarter-over-quarter versus 0.5% expected. GDP for the year ended September 2019 was slightly higher at 1.7%. House prices continued to trend higher off two-year lows reached in the middle of the year and private sector credit picked up. There was a large increase in jobs following a poor report the month prior; however, the large majority of the pickup was in part-time positions. Skilled vacancies continued to drop as they did every month in 2019 while job advertisements also declined having been weak throughout the year as well.

Portfolio commentary

The ANZ Dynamic Fixed Income Portfolio returned -0.93%, outperforming the 60/40 blended benchmark of the Bloomberg Ausbond Composite Bond Index and Barclays Global Aggregate (100% Hedged) by 0.16%.

The international component returned 0.03%, outperforming its benchmark by 0.25%. Outperformance was driven by the actively managed PIMCO strategy, which provided a return of 0.24%, equating to approximately 0.50% of alpha over its benchmark. Both passively managed Vanguard strategies performed in line with their benchmarks. The Vanguard International Credit Securities (hedged) exposure had egative absolute performance of approximately -0.05%. The Vanguard International Fixed Interest Fund (hedged) fell -0.56%.

Inside the PIMCO strategy an overweight to securitised assets (in particular U.S. agency MBS) added carry and contributed driven by a favourable prepayment report, a steeper yield curve, and declining seasonal issuance. Exposure to EM sovereigns also contributed due to spread tightening as risk sentiment generally improved as a “Phase 1” trade deal was reached and the U.S. House passed the USMCA trade deal. Off-benchmark exposure to U.S. inflation-linked bonds added alpha as break-evens widened, consistent with moves in equities, crude oil and nominal yields.

The Australian portion of the portfolio outperformed its benchmark by 0.11% in December due to a combination of carry and spread compression on corporate sector bonds. Interest rate strategies were neutral for relative performance as a slight underweight duration position was offset by a yield curve-flattening position at the long end as the curve steepened. Security selection detracted slightly.

Launch date

19 November 2015

Fees

Please refer to the relevant PDS and the Investment Menu/Managed Account Profile for more information.

Fund currency

Australian Dollar

Distributions

The Portfolio generally distributes on a quarterly basis. The amount (if any) distributed to each unitholder will be based on the number of units held and the distribution per unit at the end of each distribution period.