



Future Directions International Bond

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Barclays Capital Global Aggregate Index (hedged back to Australian dollars) on a rolling 3 year basis through investing in fixed or floating interest rate securities in countries around the globe. These securities may include government securities, government related securities, corporate securities, asset backed securities and hybrid securities (such as convertible notes) in both developed and emerging markets.

Investment Option Performance

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

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International Fixed Interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	94.03
Cash	5.97

Fund Performance

The Fund posted a positive return (before fees) in the September quarter and outperformed the benchmark. All six of the Fund's underlying managers generated positive absolute returns, with two outperforming their respective benchmarks.

The largest segment of the Fund, global government bonds, recorded positive absolute performance. Within the segment, the **AMP Capital** portfolio posted a positive return but underperformed its benchmark. The further easing of monetary policy in Europe and the restart of quantitative easing contributed to a flattening of interest rate curves and a tightening of spreads between periphery and core European bond yields. Long duration positions detracted slightly from performance, as bonds sold off sharply in the second week of September and only retraced a small portion of the selloff by month end. Canadian and US rates positions were the main detractors.

Elsewhere within the global government bond segment, **Kapstream** and **Colchester** posted positive returns but underperformed the benchmark. The main detractor from **Kapstream's** performance was a short duration position in Europe, particularly within Italy and France. Long duration positions in Australia and Poland, and short duration positions in Switzerland, Japan and Austria were the main contributors. **Colchester's** bond selection detracted from relative returns, while currency strategies made a positive contribution. The main bond detractors were underweight positions in the UK, the US and Europe. Long positions in the Mexican peso and Japanese yen, and a short position in the New Zealand dollar, were the main currency contributors.

Within global credit, **Morgan Stanley** and **Blackrock** posted positive absolute returns but Morgan Stanley underperformed the benchmark. **Morgan Stanley's** investment grade credit positioning had a positive impact on performance. Positioning in financials was the main contributor, specifically an overweight exposure to the banking sector. However, positioning within the industrials sector was a partial detractor. Allocations to high-yield bonds and convertibles had a neutral impact on performance. **Blackrock's** credit security selection and asset allocation strategies contributed to relative performance, while the overall impact of interest rate strategies was almost neutral.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – recorded a positive absolute return and outperformed its benchmark. Security selection initially contributed to performance, primarily due to selection within 30-year Government National Mortgage Association (GNMA) bonds where cash flows are passed through to investors. However, this impact was partially unwound in September. Sector allocation detracted from performance, primarily due to an underweight allocation to 30-year conventional bonds where cash flows are passed through to investors. This was partially offset by contributions from allocations to interest-only agency collateralised mortgage obligations (CMOs) and non-agency residential mortgage backed securities (RMBS). Yield curve positioning and duration management detracted from relative performance over the quarter.

Market Review

After showing some signs of consolidating early in the September quarter, global government bond markets rallied into the widely anticipated move by the US Federal Reserve to lower the Federal Funds Rate range by 0.25% following its policy meeting on 31 July, and picked up momentum during August as an escalation of the US-China trade dispute eroded investor confidence in global economic growth prospects. The significant fall in bond yields prompted yield curves globally to flatten. In September, bond yields initially moved higher amid indications that the US economy continues to create new jobs, however yields subsequently retraced part of their rise after disruptive drone attacks on Saudi Arabian oil facilities saw the return of 'risk off' sentiment and the US Federal Reserve lowered the target range for the federal funds rate by a further 0.25%. Monetary easing also featured in Europe later in the period, where the European Central Bank announced a reduction in its deposit rate to -0.50% and a planned restart in November of its asset purchase plan at a rate of €20 billion per month. The US 10-year bond yield ended the quarter at 1.66%, while its German and Japanese counterparts ended at -0.57% and -0.21% respectively.

Outlook

Very low sovereign bond yields point to a low medium-term return potential from global sovereign fixed interest. However, with a generally benign inflationary environment, an unresolved US-China trade dispute causing a flight to safety, and a general bias from central banks towards more accommodative stances; any upward pressure on bond yields is now likely to be subdued for the time being. Lower bond yields may persist, at least until the global economic environment shows signs of improved sentiment, momentum and visibility.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0658AU*
AMP Flexible Super - Retirement account	AMP1356AU*
AMP Flexible Super - Super account	AMP1485AU*
CustomSuper	AMP0658AU*
Flexible Lifetime - Allocated Pension	AMP0605AU*
Flexible Lifetime - Investments (Series 1)	AMP0694AU*
Flexible Lifetime - Investments (Series 2)	AMP1420AU*
Flexible Lifetime - Term Pension	AMP0928AU*
SignatureSuper	AMP0802AU*
SignatureSuper - Allocated Pension	AMP1158AU*
SignatureSuper Select	AMP0802AU*

*Closed to new investors

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