



Future Directions International Bond

Quarterly Investment Option Update

31 March 2020

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	99.73
Cash	0.27

Fund Performance

The Fund posted a positive return (before fees) in the March quarter but underperformed the benchmark. Two of the Fund's underlying managers posted positive absolute returns.

The largest segment of the Fund, global government bonds, recorded positive absolute performance. Within the segment, **Kapstream** and **Colchester** posted positive returns, but Colchester underperformed the benchmark. The main contributors to **Kapstream's** performance were long duration positions in the US, Germany and the UK, and a short duration position in Indonesia. A long duration position in Japan and a short duration position in Switzerland detracted slightly. **Colchester's** bond selection detracted from relative returns, with currency selection also a slight detractor. The main bond detractors were underweight positions in the US and the UK, and an overweight position in Mexico. Long positions in the Mexican peso and Norwegian krone, and a short position in the Swiss franc, were the main currency detractors.

Within global credit, **Morgan Stanley** and **Blackrock** posted negative returns and underperformed the benchmark. **Morgan Stanley's** investment grade credit positioning had a negative impact on performance, driven mainly by positioning within the banking, insurance, REITs, consumer cyclical, energy, transportation and technology sectors. An allocation to high-yield bonds and convertibles also detracted from performance. **Blackrock's** credit security selection and rates strategies detracted from performance, more than offsetting the contribution from asset allocation strategies.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – posted a negative absolute return and underperformed its benchmark. Sector allocation detracted from performance. An allocation to non-agency residential mortgage backed securities (RMBS), particularly credit risk transfer (CRT) securities, was the main detractor as the sector was impacted by selling on the part of levered investors who were seeking to raise cash. This more than offset the contribution from an overweight allocation to 30-year Government National Mortgage Association (GNMA) bonds where cash flows are passed through to investors. Security selection also detracted from performance, reflecting the impact of credit spread widening within the commercial mortgage backed securities (CMBS) sector. Yield curve positioning and duration management detracted slightly from relative performance over the quarter.

Market Review

Global government bond yields drifted lower at the start of the year amid geopolitical tensions in the Middle East and the impeachment of US President Donald Trump. Yields subsequently accelerated lower as a rapid escalation in the human and economic impact of COVID-19 prompted global central bankers to significantly lower interest rates and governments to undertake unprecedented fiscal stimulus. Trading was characterised by heightened volatility, reflecting market concerns over the longer-term cost of the fiscal response, contrasting with optimism regarding its near-term social benefits. The US 10-year bond yield ended the quarter 125 basis points lower at 0.67%. Similarly, the German 10-year bond yield declined by 135 basis points to -0.47%, while its Japanese counterpart ended the quarter at 0.02%.

Outlook

Governments and central bankers around the world have announced unprecedented support and stimulus measures to ensure that the collateral damage to businesses and households is kept to a minimum through the shutdown period necessary to contain the spread of COVID-19. To date, these appear to be containing upward pressure on bond yields, with asset purchase programs by central banks also likely to encourage yields to move lower.

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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