



# Future Directions Australian Bond

Quarterly Investment Option Update

30 September 2020

## Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the benchmark over a rolling three-year basis. The portfolio invests in short and long-term fixed interest securities including inflation linked bonds, government, semi-government, bank, corporate and asset-backed securities, derivatives and currency. The portfolio may also have exposure to international securities in both developed and emerging markets. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars. The benchmark is a combination of 85% Bloomberg AusBond Government 0+ Year Index and 15% Bloomberg AusBond Inflation Government 0+ Year Index.

## Investment Option Performance

To view the latest investment performances for each product, please visit [www.amp.com.au/performance](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Australian Fixed Interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Relative risk rating</b>	5 / Medium to High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian Fixed Interest	100
Cash	0

  

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	2.27
Australian Fixed Interest	84.85
Cash	12.88

## Fund Performance

The Fund posted a positive return (before fees) in the September quarter and outperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, posted a positive absolute return and outperformed its benchmark. The smaller inflation-linked component, managed by **Ardea**, also posted a positive absolute return and outperformed its benchmark.

**AMP Capital's** performance benefited from Australian duration and spread positions which began to factor in a higher probability that the Reserve Bank of Australia will cut the policy rate further. It also benefited from volatility positioning, with short volatility positions taken at the short end of the US and European interest rate curves, and with corresponding long positions at longer maturities.

Inflation-linked bond fund manager **Ardea** benefited from bond-swap, semi-government bond and inflation strategies. Yield-curve arbitrage strategies detracted. Interest rate swap strategies enable the Fund to over and underweight specific bonds and maturities along the yield curve, while neutralising the duration associated with these positions, and manage overall exposures and movements in government bond yields.

## Market Review

Australian long-dated government bond yields moved lower over the course of the quarter as economic prospects were impacted by a flare up in COVID-19 infections in Victoria and the subsequent reimposition of lockdown measures. Investors largely discounted the prospect of ongoing fiscal stimulus leading to higher medium-term inflation and instead focused on the implications of a decline in immigration and the prospect of reduced housing demand, an increasing shift to part-time employment and the impending tapering of the JobKeeper support initiative. The Commonwealth Government 10-year bond yield declined by eight basis points over the quarter to 0.79%, while its 2-year counterpart ended nine basis points lower at 0.16%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were around 1.0% for the period, in Australian dollar terms.

Australian credit spreads meanwhile tightened over the September quarter despite a resurgence of COVID-19, which prompted the re-introduction of lockdown measures across Melbourne and reignited concerns about the outlook for the retail sector. Results from the domestic corporate profit reporting season were mostly favourable from a credit perspective, which provided a particular boost to sentiment.

## Outlook

The Reserve Bank of Australia has kept its policy rate at a record low of 0.25%; implementing a yield curve control policy whereby it also targets the three-year bond yield at 0.25%. Further stimulus measures will be required to maintain the productive capacity of the economy, although monetary options will become more limited as interest rates approach zero. Given structural issues around an indebted consumer, which will likely see monetary policy constant for the time being, we expect Australian rates to remain low although are unlikely to become negative.

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## Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1345AU*
AMP Flexible Super - Super	AMP1474AU*
CustomSuper	AMP0066AU*
Flexible Lifetime - Allocated Pension	AMP0599AU*
Flexible Lifetime - Investments (Series 1)	AMP0693AU*
Flexible Lifetime - Investments (Series 2)	AMP1409AU*
Flexible Lifetime - Super	AMP0066AU*
Flexible Lifetime - Term Pension	AMP0920AU*
SignatureSuper	AMP0796AU*
SignatureSuper - Allocated Pension	AMP1149AU*
SignatureSuper Select	AMP0796AU*

\*Closed to new investors

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