Future Directions International Bond

Quarterly Investment Option Update

30 September 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/performance

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	5 / Medium to High
Investment style	Active
Manager style	Multi-manager

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

Actual Allocation	%
International Fixed Interest	99.78
Cash	0.22

Fund Performance

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

The largest segment of the Fund, global government bonds, recorded positive absolute performance. Within the segment, **Kapstream** and **Colchester** posted positive returns and outperformed the benchmark. **Kapstream's** recent performance benefited from yield curve positioning in the US and Australia, complementing the earlier contributions from positioning in Korea, Switzerland, Thailand and New Zealand. **Colchester's** performance during the quarter benefited from an overweight allocation to US inflation-linked bonds, a long position in the Norwegian krone and a short position in the New Zealand dollar.

Within global credit, **Morgan Stanley** and **Blackrock** posted positive returns and outperformed the benchmark. **Morgan Stanley's** performance benefited from an allocation to convertible bonds, with an allocation high-yield bonds also slightly positive. Within investment grade credit, overweight allocations to the banking and insurance sectors added to performance early in the quarter, offsetting the impact of positioning within the industrials sector. **Blackrock's** rates strategies contributed to performance, more than offsetting recent weakness in the credit security selection and asset allocation strategies.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – posted a positive absolute return and outperformed its benchmark. Sector allocation benefited performance, reflecting the contribution from non-agency residential mortgage backed securities (RMBS), particularly credit risk transfer (CRT) securities, an underweight allocation to 30-year and 15-year conventional bonds where cash flows are passed through to investors, and allocations to agency collateralised mortgage obligations (CMOs) and collateralised loan obligations (CLOs). Security selection also benefited performance, reflecting the contributions from selection within commercial mortgage backed securities (CMBS), mortgage backed securities (MBS) where cash flows are passed through to investors and asset backed securities (ABS). Duration management and yield curve positioning had a slightly negative impact on performance.

Market Review

Global government bond yields moved lower in July, as heightened geopolitical tensions and the ongoing struggle to contain COVID-19 held sway over upside surprises in US company earnings. Yields subsequently rebounded amid the inflationary implications of a move by the Fed to adjust its inflation target and with sales and re-financing data pointing to sustained strength in the US housing market. Meanwhile, the prospect of a further US fiscal stimulus package remained elusive, despite the Fed Chair Jerome Powell reiterating that a lack of additional fiscal support represented a "downside risk" to the economic outlook. The US 10-year bond yield ended the quarter three basis points higher at 0.69%. The German 10-year bond yield declined by six basis points to -0.52% and its Japanese counterpart declined by one basis point to 0.01%. Total returns for global bonds, as measured by the Bloomberg Barclays Global Aggregate Index Hedged, returned around 0.7% for the period, in Australian dollar terms.

Global credit spreads meanwhile tightened over the September quarter, driven initially by better than expected US corporate profit results. Although earnings were mostly lower, the extent of the decline was substantially less than expected, which provided a boost to market sentiment. Despite progress towards a further US fiscal stimulus package remaining mired in political wrangling, credit investors were encouraged by stronger than expected US economic data.

Outlook

The outbreak of COVID-19 has likely triggered a global recession and policy makers around the world are having to respond with dramatic levels of monetary and fiscal stimulus. The emergence of COVID-19 within an ongoing background of weak economic fundamentals and subdued inflation, as well as the adoption of yield curve targeting and quantitative easing monetary programmes, continues to argue for a bias towards longer duration positions, although risks of second wave outbreaks remain and uncertainty remains elevated.

Availability

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

*Closed to new investors

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267

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