



# Future Directions International Bond

Quarterly Investment Option Update

30 June 2021

## Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Bloomberg 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](http://www.amp.com.au/performance)

## Investment Option Overview

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

| <b>Asset Allocation</b>      | <b>Benchmark (%)</b> |
|------------------------------|----------------------|
| International Fixed Interest | 100                  |
| Cash                         | 0                    |

  

| <b>Actual Allocation</b>     | <b>%</b> |
|------------------------------|----------|
| International Fixed Interest | 99.73    |
| Cash                         | 0.27     |

## Fund Performance

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

The largest segment of the Fund, global government bonds, recorded positive absolute performance. Within the segment, both **Kapstream** and **Colchester** posted positive returns and outperformed the benchmark. **Kapstream's** performance benefited from positioning in the US, Australia, Singapore and Mexico. These more than offset the impact of positioning in Indonesia, Canada and Poland, and long positions in the Korean won and Canadian dollar. **Colchester's** performance benefited primarily from bond selection with currency selection also adding value. The main bond contributors were overweight positions in US inflation-linked bonds and Singaporean nominal bonds and market selection within European nominal bonds. A long position in the Malaysian ringgit was the main currency contributor.

Within global credit, **Morgan Stanley** and **Blackrock** posted positive returns and outperformed the benchmark.

**Morgan Stanley's** performance benefited from allocations to high-yield bonds and convertible bonds. Investment grade credit positioning had a neutral overall impact as the contribution from an overweight exposure to financials was offset by the impact of positioning within industrials.

**Blackrock's** performance benefited from overweight allocations to technology, consumer cyclicals, banking, property and casualty insurance. Rates strategies added to performance, as the contributions from inflation positioning in the US and the UK and long positions in Australia and the UK more than offset the impact of yield curve strategies and the directional rates strategy.

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 contributions from underweight allocations to 30-year and 15-year securities where cashflows are passed to investors and an allocation to non-agency residential mortgage backed securities. Security selection detracted from performance, primarily reflecting the impact of selection within 30-year agency securities where cashflows are passed to investors. Tactical yield curve and duration positioning also had a negative impact on performance.

## Market Review

US long-dated government bond yields moved lower over the June quarter, producing a flattening in the US yield curve as shorter dated maturities remained buoyed. The respective movements in yields followed the US Federal Reserve (Fed) bringing forward its likely time horizon for monetary tightening to 2023 (from 2024 previously). Longer-dated yields moved lower in line with the moderation in longer-term inflation expectations, while short-dated yields moved higher in anticipation of the prospective policy shift. Recent economic data has shown that US consumer prices lifted strongly in May, while the broader US economy has rebounded to surpass where it was in the final quarter of 2019 before the pandemic struck. The US 10-year bond yield ended the quarter 27 basis points lower at 1.47%. Its Japanese counterpart ended four basis points lower at 0.05% and the German 10-year bond yield rose by eight basis points to -0.21%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), rose by 0.94% for the period (in Australian dollar terms).

## Outlook

The global economy continues to try and pull itself out of the COVID-19 recessionary hole. With widespread distribution of the newly developed vaccines and the end of a difficult Northern Hemisphere winter case peak, global economic activity is beginning to accelerate again. However, the emergence of the new virulent Delta and Delta Plus coronavirus strains pose a risk to recovery timelines should they result in further lockdowns.

As vaccination programs allow countries to normalise further, it will be important for fiscal and monetary stimulus to continue to support the recovery through lumpy inflation data and activity rebounds. The effect of COVID-19 within an uncertain inflationary backdrop is likely to set a cap on the repricing of duration for the time being. Thus, bond markets will be keeping a keen eye on inflation trends to judge whether inflation is likely to be transitory or more persistent in nature. Despite this, the recovery is unlikely to solve many of the long-term structural issues that have plagued global economies.

## 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

\*\*Closed to new and existing investors

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267



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