Future Directions International Bond

Quarterly Investment Option Update

31 December 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.

Asset Allocation	Benchmark (%)
Global fixed interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	99.73
Cash	0.27

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	Medium to High
Investment style	Active
Manager style	Multi-manager

Fund Performance

The Fund posted a negative return (before fees) for the December quarter and underperformed the benchmark. Underlying manager performance for the period was generally negative, with Kapstream being the strongest absolute performer.

The global government bond segment of the portfolio recorded a negative absolute performance, slightly below the benchmark. **Kapstream** produced a flat return, which was above the benchmark, while **Colchester** was negative and below benchmark.

Kapstream's performance was aided towards the end of the quarter by being short duration in the longer end of the US curve, whereas being short duration in Canada detracted as rates rallied across the curve. A short duration position in Asia outperformed. **Colchester's** performance was impacted over the period by bond and currency selection, including its overweight positions in Singapore and Mexico and an underweight position in the UK. Long positions in the Swedish Krona, Japanese Yen and Colombian Peso also detracted over the quarter.

The global credit segment of the portfolio also struggled over the three months, producing a negative return, slightly below the benchmark. **Morgan Stanley** posted a negative absolute return, roughly in line with its benchmark, while **BlackRock** posted a negative return and underperformed.

BlackRock's credit selection strategy impacted the manager's return towards the quarter's end, as did select overweights within the technology, healthcare and consumer non-cyclical sectors. Rates strategies also added value over much of the period, in particular through short positions in the US and the UK, versus longs in Europe, Canada and Australia. **Morgan Stanley's** underperformance towards the end of the period, was driven by duration positioning, with positioning within industrials, basic industry, consumer non-cyclical, energy and technology also detracting.

The global securitised segment of the portfolio, managed by **Wellington,** delivered a negative absolute return, though slightly outperformed its benchmark. Sector allocation added to performance earlier in the quarter, particular its overweight to non-agency RMBS. The allocation to agency (i.e., government-backed) sectors detracted from performance with the market expecting the US Federal Reserve (Fed) to end its Quantitative Easing program earlier than expected. Security selection was a drag on performance over the quarter, particularly within 30-year GNMA pass-throughs (i.e., government backed mortgage related securities).

Market Review

US government bond yields moved slightly higher over the December quarter although there was substantial volatility during the period, most notably associated with the emergence of the Omicron variant in late November. Central bank deliberations also significantly impacted yields, particularly in December when the US Federal Reserve updated its outlook for monetary policy, with expectations centred on the likelihood of three interest rate increases in 2022 and a further three the following year. The central bank also decided to reduce the monthly pace of its net asset purchases by US$20 billion for Treasury securities and US$10 billion for agency mortgage-backed securities. The US 10-year bond yield ended the quarter two basis points higher at 1.51%. Its Japanese counterpart ended unchanged at 0.07% and the German 10-year bond yield rose by two basis points to -0.18%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), rose by 0.03% for the period (in Australian dollar terms).

Outlook

The global economy is steadily pulling itself out of the COVID-19 recessionary hole in 2021, with widespread distribution of vaccines seeing global economic activity accelerate. However, we are seeing large divergences across the globe.

As vaccination programmes allow countries to normalise, it will be important for fiscal and monetary stimulus to continue to support the recovery through lumpy inflation and activity rebounds. The emergence of COVID-19 within an ongoing weak state of fundamentals is likely to set a cap on the repricing of duration, although it is likely there will be a strong cyclical recovery from vaccine distribution and the normalisation of many economies which, alongside unconventional monetary policy stimulus, will drive a strong recovery in risk asset markets but is unlikely to solve many of the long-term structural issues that have plagued global economies.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0694AU*
Flexible Lifetime - Investments (Series 2)	AMP1420AU*
SignatureSuper	AMP0802AU**
SignatureSuper - Allocated Pension	AMP1158AU**
SignatureSuper Term Pension	AMP1158AU**

*Closed to all investors
**Closed to new investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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