Future Directions International Bond

Quarterly Investment Option Update

31 March 2022

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

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

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

Actual Allocation	%
International Fixed Interest	99.81
Cash	0.19

Fund Performance

The Fund posted a negative return for the March quarter and underperformed the benchmark (before fees), as bond markets continued to selloff heavily around the globe on the back of ongoing inflation concerns, which have been exacerbated by Russia's continuing war on Ukraine.

The global government bond segment of the portfolio was negative in absolute terms, though solidly outperformed its benchmark overall, with both **Colchester** and **Kapstream** outperforming their custom GDP weighted ex China sovereign bond benchmark. **Colchester** outperformed largely due to bond selection decisions, including through underweight positions in Russia, United States and Europe. **Kapstream's** portfolio strongly outperformed the benchmark towards the end of the quarter mainly due to a decision to short Russian sovereign bonds. A short position on the Euro against the Australian dollar also added value.

The global credit segment of the portfolio was also negative for the quarter in both absolute and relative terms, with **Blackrock** and **Morgan Stanley** both slightly underperforming. **BlackRock's** credit selection strategy detracted from the manager's performance, which towards the end of the quarter, was driven by underweights to selected aerospace & defence names and selected wirelines communication names. **Morgan Stanley's** performance was impacted by investment grade credit positioning. Positioning within financials was the main driver, through overweights to insurance and banking. High yield positions in industrials however added value towards the end of the quarter.

The global securitised segment of the portfolio, managed by **Wellington,** slightly underperformed its benchmark, though produced the strongest absolute return of our underlying managers. Towards the end of the period, yield curve and duration positioning aided the return, while sector allocation had a negative impact due to exposure to 15-year pass throughs (government backed mortgage related securities).

Market Review

US government bond yields moved substantially higher over the course of the March quarter. The impetus for the rise came from US consumer price inflation, which rose to a multi-decade high, fuelling expectations that the US Federal Reserve may act sooner than previously expected in raising interest rates to address what it termed "elevated levels of inflation". These expectations eventuated in March when the target range for the Federal Funds Rate was increased from 0%-0.25%, where it had been for the last two years, to 0.25%-0.50%. The central bank cited strength in the labour market and "elevated" inflation as motivations for its action and set the stage for further increases, saying it "anticipates that ongoing increases in the target range will be appropriate". The US 10-year bond yield ended the quarter 83 basis points higher at 2.34%. The Japanese 10-year bond yield ended 14 basis points higher at 0.21% and the German 10-year bond yield rose by 73 basis points to 0.55%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), returned -4.98% for the period (in Australian dollar terms).

Outlook

The global economy has largely recovered from the COVID-19 recession that began in 2020, with widespread distribution of vaccines seeing global economic activity accelerate and assisting in the transition of the virus from pandemic to endemic. However, we are seeing large divergences across the globe, which have only been exacerbated by differing levels of exposure to the Russia-Ukraine crisis. While the US and Europe were the initial leaders in vaccination rollouts, much of the rest of the globe is steadily catching up (though poorer countries have a long way to go, with only 26% of population fully vaccinated as at early April). The economic effects of each new variant wave seem to be lessening, with the Omicron wave having far less of an impact than the previous Delta wave. The Russian invasion of Ukraine is driving a further surge in supply-side inflation and will complicate the recovery. Both global central banks and markets seemed to have turned their focus to inflation, with the Fed flagging the potential for multiple 50 basis point hikes in 2022. This raises the question of whether central banks have fallen too far behind the curve such that harnessing inflation brings a premature end to the cycle.

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 new investors

**Closed to new and existing investors

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