



Future Directions Australian Bond

Quarterly Investment Option Update

30 June 2022

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 this product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Fixed interest securities and cash	85
Inflation linked bonds	15

Actual Allocation	%
International Fixed Interest	2.25
Australian Fixed Interest	73.01
Cash	24.73

Fund Performance

The Fund posted a negative return in the June quarter and slightly underperformed the benchmark (before fees). While both underlying managers lost ground, the conventional government bond component, managed by Macquarie, underperformed its benchmark, outweighing the Fund's inflation-linked component, managed by Ardea which outperformed its benchmark.

Macquarie's performance was impacted by interest rate and spread positioning. Inflation detracted from the manager's returns as expectations for inflation finished lower after peaking in May, with market attention turning to the dampening effect of monetary tightening feeding to rising concerns for economic growth. An overweight semi-government position also detracted as spreads to government bonds widened. The manager reduced their long duration position during the period to be only marginally long, as the market's focus returned to the impact of aggressive rate hikes on growth. Elsewhere, the manager reduced its exposure to semi-government bonds in response to the continuing widening in spreads.

Ardea's outperformance was achieved across several strategies, including the strong contribution from its overweight exposure to government bonds relative to interest rate swaps, after long-dated government bonds outperformed interest rate swaps materially through the end of the period. Yield curve arbitrage strategies as well as the manager's defensive option strategies also contributed to the strong relative performance.

Market Review

The Australian yield curve continued its march upwards over the June quarter. Domestic inflation data continued to dominate economic news flow, with price rises not seen since the start of the century. With the market not expecting the inflation level to peak before the end of 2022, the RBA pressed on with the normalisation of accommodative monetary policy by raising the official cash rate from 0.10% to 1.35% over three successive meetings starting from May. As is the case in the US, Australia's economy appears quite solid with record unemployment levels sitting at 3.90%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -3.81% during the period, in Australian dollar terms.

Outlook

A hawkish RBA has signalled an aggressive profile for interest rates over the next 6-12 months. High household debt levels however are making rate hikes more potent, and therefore may reduce the need to raise rates as much as some expect. Moving earlier and faster should also help the RBA to slow down the pace of hikes next year. While risks remain to the broader economy, we believe rate hikes alone are unlikely to totally derail economic growth, as monetary policy is still very-easy relative to long-term normal levels, the terms of trade remains strong and employment remains full.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0693AU**
Flexible Lifetime - Investments (Series 2)	AMP1409AU**
SignatureSuper	AMP0796AU*
SignatureSuper - Allocated Pension	AMP1149AU*
SignatureSuper Term Pension	AMP1149AU*

*Closed to new investors

**Closed to new and existing investors

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