Future Directions Australian Bond

Quarterly Investment Option Update

31 December 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
Standard Risk Measure	4/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	2.37
Australian Fixed Interest	75.40
Cash	22.23

Fund Performance

The Fund posted a strong positive return and outperformed its benchmark (before fees) in the December quarter. Both the conventional government bond component of the portfolio managed by Macquarie, and the inflation-linked component managed by Ardea, were positive and outperformed their respective benchmarks.

Macquarie has recently modestly increased its semi-government exposure, a sector they believe is offering value as semi-governments continue to lag the narrowing in swap spreads. Their portfolio is positioned for a recession in 2023, along with falling inflation, which should benefit sovereign bond yields, though likely result in widened credit spreads.

Ardea generated most of its out-performance early to mid-quarter, largely due to its yield curve and arbitrage strategies. Later in the period however these strategies were negatively impacted by a surprising shift in Japanese monetary policy, which impacted bond markets more broadly, including Australia, amid speculation and a degree of global repositioning.

Market Review

Australian bonds were choppy towards year-end as rising yields (from mid-December) largely offset a strong rally (falling yields) that took place over most of the December quarter. Australian 10-year government bonds reached 4.05% at the end of 2022, up 16bp over the quarter and 238bp over the calendar year.

Alongside many global peers, the focus for the RBA over the quarter was the commitment to tightening economic conditions in order to return elevated inflation towards targeted levels. Whilst jobs data remains strong and economic data releases (outside of housing) remain reasonable, inflation remains higher than targets. Following several consecutive hikes which saw the RBA cash rate target rise from 0.10% to 2.85%, market participants are expecting the end of the rate rise cycle in the first quarter of 2023.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned 0.43% during the period, in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, returned 3.72% over the same time frame, on expectations of higher inflation levels.

Outlook

While some further interest rate hikes are still possible, the RBA has signalled a preference to slow the pace of hikes, in a bid to reduce downside risks to the economy as well as to allow for time-lags involved with monetary changes influencing the economy. Furthermore, high household debt levels and a large share of variable rate loans in Australia have made rate hikes more potent relative to many overseas economies. Recession in the year ahead remains a reasonable possibility, particularly if the RBA remains hawkish, as delayed impacts of recent rate rises come further into play.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0693AU**
Flexible Lifetime - Investments (Series 2)	AMP1409AU**

**Closed to new and existing investors

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