Future Directions International Bond

Quarterly Investment Option Update

31 December 2022

Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Bloomberg 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 this product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Standard Risk Measure	5/Medium to High
Investment style	Active
Manager style	Multi-manager

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

Actual Allocation	%
Global Fixed Interest	99.94
Cash	0.06

Fund Performance

The Fund posted a positive return in the December quarter and underperformed the benchmark (before fees).

The global government bond segment of the portfolio outperformed its custom GDP weighted (ex China) sovereign bond benchmark. Colchester again outperformed, as it did through much of 2022, with bond selection driving returns. Its position in the Japanese yen also benefitted over the quarter. Kapstream lagged its benchmark, with modest active long positions in France, Spain and Germany detracting towards the end of the quarter.

The global credit segment of the portfolio also outperformed its benchmark. BlackRock added value through overweights to selected technology names and consumer cyclical service providers towards the end of the quarter. Morgan Stanley also outperformed, with exposure to high yield positions, convertibles and government related positions all aiding the relative return towards year-end.

Finally, the global securitised segment of the portfolio, managed by Wellington, outperformed its benchmark in the December quarter. Sector allocation and currency effect aided the return towards year-end, including through exposure to non-agency residential mortgage-backed securities (RMBS).

Market Review

Globally, government bond yield curves were volatile towards the end of 2022. Over the December quarter, investors generally pushed bond prices higher on the back of recent data showing global inflation levels may have peaked; and are expecting central banks, in particular the US Federal Reserve (Fed), to end their rate hiking process earlier than expected and perhaps look to reduce rates soon. Whilst inflation levels may have peaked, many central banks would argue they are still elevated, and far above targets (generally around 2 – 3%). The Fed Chair is acutely aware of experience of the 1970s, where the Fed backed away from the fight against inflation too soon, only for greater bouts of inflation to return. It is therefore steadfast in maintaining higher interest rates for longer and has pushed back against market expectations of an earlier end to the rate rise cycle. The Fed's focus has gradually turned to the strength of the US labour market, where a softening job market would help to cool the economy. Global bond yields mostly ended the quarter higher, aside from the UK, where the appointment of a new prime minister and chancellor calmed investors from the local market turmoil experienced in previous months. The Bank of Japan (BoJ) meanwhile made a surprising amendment of its easy monetary policy, via widening the range which it allows the 10-year bond yield to trade at. This saw the yield on longer dated Japanese government bonds jump.

Global bonds, as measured by the Bloomberg Global Aggregate Index ($A hedged), gained 0.64%, in Australian dollar terms. Global investment grade and high yield credit meanwhile gained 2.67% and 5.95% respectively, as measured by the Bloomberg Global Aggregate Corporate Index ($A hedged) and Bloomberg Global High Yield Index ($A hedged).

Outlook

Inflation, the path of interest rate movements and recession are likely to continue to be the dominant themes driving bond markets over the medium-term. After long, drawn-out falls in bond prices in recent years, whilst there is still scope for central banks to further increase rates in the near-term, yields now have reverted to more attractive valuation levels. We therefore believe there is scope for improved returns from the asset class over the medium to long-term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0694AU**
Flexible Lifetime - Investments (Series 2)	AMP1420AU**

**Closed to new and existing investors

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