Future Directions Australian Bond

Quarterly Investment Option Update

31 March 2023

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 Composite 0+ Yr 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	11.19
Australian Fixed Interest	77.42
Cash	11.39

Fund Performance

For the March quarter, the Fund posted a strong positive return and slightly outperformed its benchmark (before fees). Both the conventional government bond component of the portfolio managed by Macquarie and the inflation-linked component managed by Ardea produced very strong absolute returns, with Ardea slightly underperforming and Macquarie slightly outperforming their benchmarks.

Mid quarter, the Macquarie increased their semi-government exposure, which contributed positively to performance. In March, duration positioning was moved from long to neutral, as fallout from the regional US bank crisis triggered a significant flight to quality rally globally, which they used to take profits. A position in the front end of the Australian yield curve also added value later in the quarter, amid shifting domestic expectations for future rate hikes.

While Ardea's absolute return was very strong (above 6% for the quarter), the allocation underperformed, particularly mid-quarter. This was due to the manager's options strategies detracting, reflecting decreasing expectations of future volatility in Australian interest rates. Ardea's inflation strategies also detracted, as longer dated inflation expectations declined amid expectations of more restrictive short-term policy settings.

Market Review

Australian bonds were choppy over the March quarter and accompanied their global peers with falling, but volatile yields, as the market narrative evolved from pricing in positive disinflationary outcomes, to higher RBA cash rates due to inflation remaining uncomfortably above target, and eventually to growth concerns and fallout from pockets of global banking stress. Australian 10-year government bonds rallied 0.75% over the March quarter, to 3.30%. Credit spreads, the required compensation above the risk free rate, spiked higher following the US banking stress, but remained lower than the previous highs seen in the final quarter of 2022, an acknowledgement by the market of the relative strength of the Australian banking sector.

Alongside many global peers, the focus for the RBA over the quarter was the commitment to tightening monetary conditions in order to return elevated inflation towards targeted levels. Following ten consecutive hikes over the prior 12 months, which saw the RBA cash rate target rise from 0.10% to 3.60%, the RBA decided to leave the rate unchanged in the April meeting, citing tighter financial conditions due to the cumulative rate hikes, as well as the passthrough effect of higher cash rates into the real economy amid a highly indebted housing market.

The strong rally (fall) in yields resulted in a 4.60% gain in Australian bonds over the quarter, as measured by the Bloomberg AusBond Composite (All Maturities) Index. Despite a fall in inflation-adjusted real yields, the inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, returned 6.82% over the same timeframe, due to the higher duration (interest rate sensitivity) of the index.

Outlook

While further interest rate hikes are still possible, the RBA has paused its rate 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 the cumulative rate hikes more potent, relative to many overseas economies. Recession in the year ahead remains a reasonable possibility, 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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