



Future Directions Australian Bond

Quarterly Investment Option Update

30 June 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 Bloomberg AusBond Composite 0+ Yr 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	11.28
Australian Fixed Interest	81.77
Cash	6.96

Fund Performance

Amid falling Australian bond prices, the Fund posted a negative return and slightly underperformed its benchmark (before fees) for the quarter. The core composite component of the portfolio managed by Macquarie slightly underperformed its Australian bond composite benchmark, while the inflation-linked component managed by Ardea slightly outperformed its benchmark.

Most of Macquarie's underperformance was generated towards the end of the quarter. This was due to the manager's duration and yield curve positioning, amid ongoing rates volatility and a widening in credit spreads. Duration naturally moved from short to slightly long in June as the yield curve aggressively flattened. This did however provide the manager an opportunity begin entering a steepening position at attractive levels, given the RBA is likely near the end of its hiking cycle.

Ardea, conversely, generated some outperformance towards the end of the quarter. The manager's yield curve arbitrage component, as well as rates positioning, were the drivers. Inflation positions and semi government holdings also provided positive contributions.

Market Review

Australian bonds mirrored movements in global bond markets during the June quarter, with the Australian 10-year bond climbing 0.73% to end the quarter at 4.02%. Alongside many global peers, the focus for the RBA over the quarter was a continued commitment to tightening economic conditions in order to return inflation towards targeted levels. The RBA held rates steady in April, citing uncertainty induced by the US regional bank crisis, however as this risk abated during the quarter it instigated consecutive 0.25% rate hikes, which saw the cash rate rise to 4.1%.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -2.95% over the period, while the AusBond Credit index returned -1.14% in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, also delivered a negative return of -2.71%, given the increase in interest rates and bond yields over the quarter.

Outlook

Despite slowing its pace of rate hikes, further rises from the RBA are generally considered likely, particularly given continued hawkish remarks from the central bank. This is adding significant pressure to households, as high debt levels and a large share of variable rate loans in Australia have made the cumulative rate hikes more potent, particularly relative to many overseas economies. Recession in the year ahead remains a reasonable possibility, though some resilient economic and consumer data has pushed these recessionary expectations further out.

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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