



# Future Directions Australian Bond

Quarterly Investment Option Update

31 December 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](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Australian Fixed Interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Standard Risk Measure</b>	4/Medium
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian bonds	85
Inflation linked bonds	15

<b>Actual Allocation</b>	<b>%</b>
Fixed Income	98.06
Cash	1.94

## Fund Performance

Over the December quarter, the Fund posted a strong return and outperformed to the benchmark before fees. The core composite component of the portfolio managed by Macquarie slightly outperformed its Australian bond composite benchmark, while the inflation-linked component managed by Ardea outperformed its benchmark.

In regard to our inflation-linked allocation to Ardea, as normal for this manager, performance drivers continued to be spread across many small gains and losses with no unusually concentrated sources, given the manager's relative value focus. Ardea's attribution categories of interest rates and relative value curve positions produced small positive contributions over the quarter. Ardea believe that subsiding, though still elevated volatility in bond markets, is resulting in favourable current conditions for relative value investing.

Regarding our allocation to Macquarie, outperformance was generated throughout the quarter, particularly in the latter part, largely due to duration and curve positioning. Sector rotation and security selection also added value. Macquarie continued to reduce long duration exposure in December, finishing the month just below neutral.

## Market Review

Australian bond yields again mirrored movements of global peers over the December quarter, however lagged in terms of performance. Australia was unable to fully participate in the global bond rally, with stubbornly high local inflation compelling the RBA to lift the cash rate in November 2023. Despite the rate hike during the period, given the correlation of Australian yields to US yields, the Australian 10-year yield fell 0.53%, to end at 3.96%, while the 2-year yield fell 0.37%, to end at 3.71%.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned 3.79% over the period, while the AusBond Credit index returned 3.18% in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, delivered a return of 5.79% over the same timeframe, given real yields fell over the period.

## Outlook

Like their global counterparts, Australian bond valuations have improved significantly and have moved closer to fair valuation levels as yields have risen. We therefore believe forward-looking returns are now significantly more compelling than in recent history.

## 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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