

Future Directions Australian Bond

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the UBS Composite Bond (All Maturities) Index on a rolling 3-year basis. The portfolio invests in short and long-term fixed interest securities including 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.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	2 - 3 years
Relative risk rating	Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Australian Fixed Interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	2.48
Australian Fixed Interest	86.58
Cash	10.94

Fund Performance

The Fund posted a positive return (before fees) in the September quarter but slightly underperformed the benchmark. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, underperformed its benchmark. The smaller inflation-linked component, managed by **Ardea**, outperformed its benchmark. Both managers generated positive absolute performance.

AMP Capital's currency management detracted from performance, reflecting the impact of short positions in emerging market currencies and a long position in the Japanese yen versus the Australian dollar. Interest rate positioning made a modest contribution to performance over the quarter. The largest duration overweight in the portfolio continues to be in Canadian interest rate swaps. While there is a strong valuation case for owning Canadian interest rates at this juncture in the cycle, local data has continued to surprise to the upside, diverging with global trends.

Inflation-linked bond fund manager **Ardea's** relative performance benefited primarily from a flattening of the long-dated end of the yield curve and positioning in interest rate swaps. Interest rate protection strategies also contributed to returns. The portfolio retains an overweight exposure to long-dated bonds as these offer superior returns given the prevalence of long-end supply and the inability of some investors to hold long-dated instruments. It also retains a small overweight exposure to breakeven inflation strategies, which provide defensive protection to both a further weakening in the outlook and the longer-term possibility of eventual reflation.

Market Review

Monetary policy dominated news flow in the domestic bond market early in the September quarter, with the Reserve Bank of Australia announcing a 0.25% reduction in early July, bringing the official cash rate to 1.0%. The central bank maintained an unchanged monetary policy stance in August, however left the door open for further easing. Against this backdrop, the domestic yield curve mirrored the flattening trend evident in overseas peers and reached its flattest level since 2010. Domestic yields continued to follow the lead of their global counterparts during September, reversing their previous downtrend to end the month higher, although bonds did rally later in the period on the back of rising geopolitical tensions, easier monetary policy in the US and Europe and the release of dovish RBA meeting minutes. The Commonwealth Government 2-year bond yield ended the quarter at 0.77%, while the 10-year bond yield ended at 1.02%.

Outlook

Low Australian sovereign bond yields point to a low medium-term return potential from Australian sovereign fixed interest. But with benign inflation, ongoing geopolitical risks, and the Reserve Bank of Australia's easing bias, against a backdrop of soft growth, any upwards pressure on bond yields is likely to be subdued for the time being. Lower bond yields may persist, at least until the global and Australian economic environment shows signs of improved sentiment, momentum and visibility.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0066AU*
AMP Flexible Super - Retirement account	AMP1345AU*
AMP Flexible Super - Super account	AMP1474AU*
CustomSuper	AMP0066AU*
Flexible Lifetime - Allocated Pension	AMP0599AU*
Flexible Lifetime - Investments (Series 1)	AMP0693AU*
Flexible Lifetime - Investments (Series 2)	AMP1409AU*
Flexible Lifetime - Term Pension	AMP0920AU*
SignatureSuper	AMP0796AU*
SignatureSuper - Allocated Pension	AMP1149AU*
SignatureSuper Select	AMP0796AU*

*Closed to new investors

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