

Future Directions Australian Bond

Quarterly Investment Option Update

31 December 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	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	2.63
Australian Fixed Interest	86.16
Cash	11.21

Fund Performance

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

A long duration position in Australia was the main detractor from AMP Capital's performance amid heavy selling and poor market liquidity in the lead up to Christmas. Long duration positions in Canada and New Zealand also detracted from performance, more than offsetting the contribution from short duration positions in the US, Europe and the UK.

Inflation-linked bond fund manager Ardea's relative performance benefited from an inflation steepening position held against the backdrop of a recovery in market sentiment and a recovery in longer-dated breakevens. Performance also benefited from an overweight exposure to interest rate swaps, as swap spreads narrowed over the quarter, and the successful implementation of interest rate protection strategies.

Market Review

Australian government bond yields moved higher over the course of the December quarter, aided primarily by the reduction of key geopolitical risks relating to US-China trade and Brexit. After reacting somewhat earlier in the quarter to a widely-expected cut of 0.25% in the official cash rate by the Reserve Bank of Australia amid continuing mixed local data, domestic bond investors generally largely followed their overseas counterparts during the period as optimism returned to markets. However, the rise in domestic yields was constrained by the negative impacts of ongoing uncertainty with regard to domestic economic growth prospects, which saw the Reserve Bank of Australia slightly downgrade its consumption and economic growth forecasts for the fourth time in 2019, citing the impact on incomes of the drought, higher taxes and a downturn in investments. The Commonwealth Government 2-year bond yield ended the quarter at 0.92%, while the 10-year bond yield ended at 1.31%.

Outlook

Weaker than expected economic conditions are likely to motivate the Reserve Bank of Australia to provide further policy accommodation, despite the easing already provided to date. However, current market pricing largely reflects this outcome and as a result further moves in shorter-dated yields are likely to be more muted unless the outlook materially deteriorates. Longer-dated yields should be inclined to continue to closely reflect global risk sentiment, although the majority of outperformance against the US is likely behind us.

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

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



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