



Future Directions International Bond

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Barclays Capital Global Aggregate Index (hedged back to Australian dollars) on a rolling 3 year basis through investing in fixed or floating interest rate securities in countries around the globe. These securities may include government securities, government related securities, corporate securities, asset backed securities and hybrid securities (such as convertible notes) in both developed and emerging markets.

Investment Option Performance

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

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium
Investment style	Active
Manager style	Multi-manager

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

Actual Allocation	%
International Fixed Interest	99.67
Cash	0.33

Fund Performance

The Fund posted a negative return (before fees) in the December quarter but outperformed the benchmark. Two of the Fund's underlying managers posted positive returns, and three outperformed their respective benchmarks.

The largest segment of the Fund, global government bonds, recorded negative absolute performance. Within the segment, the AMP Capital portfolio posted a negative return and underperformed its benchmark. A long duration position in Australia was the main detractor from 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 credit positioning in the peripheral European markets.

Elsewhere within the global government bond segment, Kapstream and Colchester posted negative returns, but Colchester outperformed the benchmark. The main detractors from Kapstream's performance were long duration positions in the US and New Zealand. A long duration position in Korea and short duration positions within Europe, particularly in Switzerland, Austria and Belgium, were the main contributors. Colchester's bond selection contributed to relative returns, while currency selection was a slight detractor. The main bond contributors were underweight positions in Europe, the UK and the US. Short positions in the New Zealand dollar and the US dollar, and a long position in the Japanese yen, were the main currency detractors.

Within global credit, Morgan Stanley and Blackrock posted positive returns and outperformed the benchmark. Morgan Stanley's investment grade credit positioning had a positive impact on performance, mainly due to overweight exposures to the banking and insurance sectors. This was partially offset by positioning within the industrials sector. Allocations to high-yield bonds and convertibles had a positive impact on performance. Blackrock's credit security selection, rates and asset allocation strategies all added value.

The smallest segment of the Fund – the global securitised segment managed by Wellington – posted a negative return and underperformed its benchmark. Sector allocation detracted from performance, primarily due to an underweight allocation to 30-year conventional bonds where cash flows are passed through to investors. This was partially offset by an allocation to non-agency residential mortgage backed securities (RMBS) and collateralised loan obligations (CLOs). Security selection also detracted from performance, primarily due to selection within 30-year Government National Mortgage Association (GNMA) bonds where cash flows are passed through to investors and non-agency commercial mortgage backed securities (CMBS). Yield curve positioning and duration management detracted from relative performance over the quarter.

Market Review

Global government bond yields trended higher for the majority of the December quarter, with markets buoyed by optimism stemming from improving trade relations between the US and China which could lead to a resolution of their long running trade dispute, while risk of a hard Brexit in the UK was reduced in December following the resounding re-election of Prime Minister Johnson's Conservative party. In a period where markets experienced bouts of volatility, global central banks continued to provide stimulatory monetary conditions, with the US Federal Reserve cutting the Federal Funds Rate earlier in the quarter by a further 25 basis points to 1.50-1.75%. However, the central bank did signal a pause in their interest rate easing cycle, with any future accommodative moves to be considered in light of the influence of economic data. The global economic backdrop was further supported later in the period by improving data in the major global economies such as China, which provided further tentative evidence of a global economic upturn. The US 10-year bond yield ended the quarter at 1.92%, while its German and Japanese counterparts ended at -0.19% and -0.01% respectively.

Outlook

Although the US and China have reached a preliminary trade deal, there remains a downside bias in global bond yields. The last few months have seen significant uncertainty injected into the global outlook amid a broader slowdown in activity. Sentiment has become more cautious, with bond markets pricing in an increased likelihood that further monetary stimulus will be required. Trade tensions have been the primary cause but an ongoing slowdown in global capital expenditure has contributed.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0658AU*
AMP Flexible Super - Retirement account	AMP1356AU*
AMP Flexible Super - Super account	AMP1485AU*
CustomSuper	AMP0658AU*
Flexible Lifetime - Allocated Pension	AMP0605AU*
Flexible Lifetime - Investments (Series 1)	AMP0694AU*
Flexible Lifetime - Investments (Series 2)	AMP1420AU*
Flexible Lifetime - Term Pension	AMP0928AU*
SignatureSuper	AMP0802AU*
SignatureSuper - Allocated Pension	AMP1158AU*
SignatureSuper Select	AMP0802AU*

*Closed to new investors

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