

Future Directions Australian Bond

Quarterly Investment Option Update

31 March 2020

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	2.69
Australian Fixed Interest	85.45
Cash	11.86

Fund Performance

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

AMP Capital's performance was impacted by short duration positions in the US, Europe and the UK. These positions more than offset the contribution from duration positioning in Canada, Australia and New Zealand.

Inflation-linked bond fund manager **Ardea** held a material overweight exposure to inflation, which detracted from performance amid a sharp fall in oil prices and a deteriorating outlook for global growth. This was partially offset by an inflation protection position, held via an overweight exposure to long-term inflation, and an underweight exposure to short-term inflation. An overweight exposure to semi-government bonds and bond-swap positioning further detracted from performance, more than offsetting the contribution from positioning in the nominal yield curve.

Market Review

Australian government bond yields moved lower in January against the backdrop of a softening in domestic economic momentum over the preceding months. Yields subsequently exhibited heightened volatility over the remainder of the March quarter as a sharp fall in response to the deepening impact of the COVID-19 crisis gave way to an upward spike amid fears of a liquidity crunch. The RBA addressed the issue of market liquidity by cutting the cash rate by 0.25%, setting a 0.25% yield target for Commonwealth 3-year bonds, and providing funding for domestic banks. The Commonwealth Government 10-year bond yield declined by 61 basis points over the quarter to 0.76%, while the Commonwealth Government 2-year bond yield ended 67 basis points lower at 0.25%.

Outlook

Against the backdrop of the liquidity and pricing dislocation caused by the economic and financial market impact of COVID-19, the Reserve Bank of Australia (RBA) has acted decisively to lower the cash rate, purchase bonds and provide low cost funding for banks. The RBA's actions will undoubtedly help the Australian economy and the banking sector to weather the storm, but they will take their time to play out.

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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