



# Future Directions International Bond

Quarterly Investment Option Update

30 June 2020

## 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](http://www.amp.com.au)

## Investment Option Overview

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

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
International Fixed Interest	100
Cash	0

  

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	99.55
Cash	0.45

## Fund Performance

The Fund posted a positive return (before fees) in the June quarter and outperformed the benchmark. All of the Fund's underlying managers posted positive absolute returns and four outperformed their respective benchmarks. The largest segment of the Fund, global government bonds, recorded positive absolute performance. Within the segment, **Kapstream** and **Colchester** posted positive returns, but Kapstream underperformed the benchmark. Rates positioning in Thailand and Germany detracted from **Kapstream's** performance, more than offsetting the contribution from long positions in New Zealand, Singapore and Poland. **Colchester's** bond selection contributed to relative returns, with currency selection also positive. The main bond contributors were overweight positions in Mexican and Singaporean nominal bonds and US inflation-linked bonds. Short positions in the New Zealand dollar and Swiss franc were the main currency contributors.

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, driven mainly by positioning within the banking and insurance sectors. The overall impact of positioning within the industrials sector was slightly positive. An allocation to high-yield bonds and convertibles added to performance. **Blackrock's** credit security selection strategies contributed to performance, more than offsetting the impact of rates and asset allocation strategies.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – posted a positive absolute return and outperformed its benchmark. Sector allocation benefited performance, primarily reflecting the contribution from non-agency residential mortgage backed securities (RMBS), particularly credit risk transfer (CRT) securities. Allocations to collateralised loan obligations (CLOs), agency collateralised mortgage obligations (CMOs), agency mortgage backed securities (MBS) and asset backed securities (ABS) also benefited performance. Security selection, duration management and yield curve positioning all benefited performance in June, having had a mostly neutral impact earlier in the quarter.

## Market Review

Global government bond yields moved higher in April despite the US Federal Reserve only slightly slowing its pace of government bond purchases, which had capped upward pressure on yields over prior weeks. Yields subsequently traded sideways through most of May despite shifts in sentiment variously associated with the tentative easing of lockdown restrictions, economic stimulus measures and speculation regarding progress in the development of a COVID-19 treatment. Favourable US economic data provided renewed upward momentum in early June, however yields subsequently reversed course as economic sentiment deteriorated 'second wave' fears. The US 10-year bond yield ended the quarter one basis point lower at 0.66%. In contrast, the German and Japanese 10-year bond yields rose by one basis point to -0.46% and 0.02% respectively. Total returns for global bonds, as measured by the Bloomberg Barclays Global Aggregate Index Hedged, returned around 2.3% for the period in Australian dollar terms.

In credit markets meanwhile, global spreads tightened over the June quarter. This was initially prompted by the US Federal Reserve extending its bond buying program and subsequently reinforced by the market's ongoing expectation of further policy support measures on the part of central bankers, which outweighed the impact of renewed trade tensions between the US and China and a surge in COVID-19 infections in the US (which prompted several states to partially reintroduce lockdown measures.)

## Outlook

The outbreak of COVID-19 has likely triggered a global recession and policy makers around the world are having to respond with dramatic levels of monetary and fiscal stimulus. The emergence of COVID-19 within an ongoing weak state of fundamentals and consistently weak inflation, as well as the adoption of yield curve targeting and quantitative easing monetary programs, continues to argue for a bias towards long duration positions, although as global cases peak and the first wave is brought under control we expect there may be some risk asset retracement.

## Availability

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

\*Closed to new investors

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267



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