



Future Directions International Bond

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Bloomberg 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/performance

Investment Option Overview

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

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

Actual Allocation	%
International Fixed Interest	99.92
Cash	0.08

Fund Performance

The Fund posted a positive return (before fees) in the December quarter and outperformed the benchmark. Four of the Fund's underlying managers posted positive absolute returns and outperformed their respective benchmarks.

The largest segment of the Fund, global government bonds, recorded positive absolute performance. Within the segment, **Kapstream** posted a negative return and underperformed the benchmark, while **Colchester** posted a positive return and outperformed the benchmark. **Kapstream's** performance was impacted by short positions in Europe and the US, and yield curve flattening positions in Australia and New Zealand. These more than offset the contributions from a yield curve steepening position in the US and long positions in Germany, Poland, Australia, Canada and Singapore. **Colchester's** performance benefited from bond selection, which more than offset a slight deduction from currency selection. The main bond contributors were overweight positions in Mexico and Indonesia, and an underweight position in the US. Long positions in the Malaysian Ringgit and Japanese yen, and a short position in the New Zealand were the main currency detractors.

Within global credit, **Morgan Stanley** and **Blackrock** posted positive returns and outperformed the benchmark. **Morgan Stanley's** performance benefited from an allocation to high-yield bonds and convertibles. Investment grade credit positioning detracted slightly from performance, as the impact of underweight allocations to basic industries, capital goods, consumer non-cyclicals, energy, other industrials and electricity utilities more than offset the contribution from overweight allocations to banking, insurance, technology and transportation. **Blackrock's** credit security selection contributed to performance, benefiting primarily from overweight allocations to technology, consumer cyclical services, retailers, gaming, automotive and financial services. Rates strategies detracted slightly from performance, as the impact of positioning in Europe more than offset the contribution from positioning in Canada.

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. An overweight allocation to 30-year Government National Mortgage Association (GNMA) bonds, and exposure to collateralised loan obligations (CLOs), also contributed to performance.

Market Review

Data evidence of resilience in the US housing sector underpinned strength in US bond yields early in the December quarter, notwithstanding market caution ahead of the US presidential election. Yields were further boosted by the successful clinical trial and regulatory approval of the COVID-19 vaccine developed by Pfizer and its German partner BioNTech, and subsequent moves towards the commencement of mass inoculation. Central banks maintained their commitment to providing financial market support, with the US Federal Reserve undertaking to continue asset purchases "at least at the current pace" over "coming months", along with a similar undertaking from the European Central Bank. The US 10-year bond yield ended the quarter 23 basis points higher at 0.92%. The German 10-year bond yield declined by five basis points to -0.57% and its Japanese counterpart rose by one basis point to 0.02%. Global bonds, as measured by the Bloomberg Barclays Global Aggregate Index (hedged), returned 0.79% for the period (in Australian dollar terms).

Outlook

The outbreak of COVID-19 triggered a global recession and policy makers around the world continue to respond with significant levels of monetary and fiscal stimulus. The emergence of the pandemic within an ongoing weak state of fundamentals and subdued inflation, as well as the adoption of yield-curve targeting and quantitative easing monetary programmes, continues to argue for a bias towards long duration positions, although the level of unconventional monetary policy stimulus has already helped to drive a recovery in a number of risk asset markets as well as tradable inflation-sensitive markets.

Availability

Product Name	APIR
AMP Flexible Super - Retirement	AMP1356AU*
AMP Flexible Super - Super	AMP1485AU*
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, **Closed to new and existing investors

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