



Future Directions Australian Bond

Quarterly Investment Option Update

31 March 2021

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the benchmark over a rolling three-year basis. The portfolio invests in short and long-term fixed interest securities including inflation linked bonds, government, semi-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. The benchmark is a combination of 85% Bloomberg AusBond Government 0+ Year Index and 15% Bloomberg AusBond Inflation Government 0+ Year Index.

Investment Option Performance

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

Investment Option Overview

| | |
|---|---------------------------|
| Investment category | Australian Fixed Interest |
| Suggested minimum investment timeframe | 3 years |
| Relative risk rating | Medium to High |
| Investment style | Active |
| Manager style | Multi-manager |

| Asset Allocation | Benchmark (%) |
|---------------------------|----------------------|
| Australian Fixed Interest | 100 |
| Cash | 0 |

| Actual Allocation | % |
|------------------------------|----------|
| International Fixed Interest | 5.27 |
| Australian Fixed Interest | 84.12 |
| Cash | 10.61 |

Fund Performance

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

AMP Capital's performance was negatively impacted by material drawdowns from long duration positions as market expectations rerated. Emerging market positions also detracted as the market de-risked and unwound carry trades amid heightened volatility.

Inflation-linked bond fund manager **Ardea** produced returns in line with the benchmark. The Fund retains an overweight allocation to the intermediate sector of the yield curve, reflecting the steepness of the forwards, and hedged by underweight allocations elsewhere across the yield curve. With fixed income markets stabilising over March this segment of the curve held ground, with performance from this strategy stabilising. The Fund also holds an overweight allocation to select long-dated government bonds and government bond futures, with the resulting interest rate duration offset by paid interest rate swap positions.

Market Review

Australian long-dated government bond yields rose sharply over the March quarter. Against a backdrop of mostly favourable economic data, yields were buoyed by the view that progressive vaccine distribution is conducive to resurgent economic growth which, in turn, leads to higher inflation and correspondingly higher bond yields. The upward move extended to shorter maturities, despite the RBA adding a further A\$100 billion to its quantitative easing program and saying that a return to a tight labour market to an extent that would warrant an increase in the cash rate is not expected until 2024 at the earliest. The Commonwealth Government 10-year bond yield rose by 82 basis points over the quarter to 1.79%, while its 2-year counterpart ended two basis points higher at 0.09%. Total returns for Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, were -3.22% for the period, in Australian dollar terms.

Outlook

The Reserve Bank of Australia (RBA) is maintaining its yield curve control policy. Monetary policy has reduced volatility at the front end of curve and provides attractive opportunities in the mid-curve for carry and roll. However, there has been more recent upward pressure on global yields which is feeding through to the Australian market. Given the structural issues around an indebted consumer sector and upward pressure on the dollar, the RBA will more likely ease further at this juncture rather than tighten monetary policy, unless global conditions significantly change events. However, we expect the current low volatility in Australian rates to continue for the time being.

Availability

| Product Name | APIR |
|---|-------------|
| AMP Flexible Super - Retirement | AMP1345AU* |
| AMP Flexible Super - Super | AMP1474AU* |
| CustomSuper | AMP0066AU* |
| Flexible Lifetime - Allocated Pension | AMP0599AU* |
| Flexible Lifetime - Investments (Series 1) | AMP0693AU** |
| Flexible Lifetime - Investments (Series 2) | AMP1409AU** |
| Flexible Lifetime - Super | AMP0066AU* |
| Flexible Lifetime - Term Pension | AMP0920AU* |
| SignatureSuper | AMP0796AU* |
| SignatureSuper - Allocated Pension | AMP1149AU* |
| SignatureSuper Select | AMP0796AU* |

*Closed to new investors

**Closed to new and existing investors

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