

# Future Directions Australian Bond

Quarterly Investment Option Update

30 September 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](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Australian 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>
Australian Fixed Interest	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	4.16
Australian Fixed Interest	79.53
Cash	16.31

## Fund Performance

The Fund posted a negative return (before fees) in the September quarter and underperformed 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 and underperformed its benchmark.

**AMP Capital's** performance saw a drawdown during the quarter as its US short duration position underperformed relative to long duration positions elsewhere. Inflation-linked bond positioning also detracted from performance, offsetting the contributions from currency positioning and carry.

Inflation-linked bond fund manager **Ardea** underperformed as yield curve arbitrage and bond-swap strategies detracted, given the underperformance of mid-tenor government bonds. The yield curve arbitrage strategy was impacted by the steepening of the yield curve and consequent underperformance of an overweight exposure to longer-dated bonds. The bond-swap strategy was impacted by an overweight position in longer dated bonds and an overweight position in short-dated interest rate swaps within an environment of rising short-dated swap rates and underperformance by government bonds.

## Market Review

Domestic yields moved lower for most of the September quarter as a deteriorating COVID-19 situation led to the progressive expansion of ongoing lockdown measures across much of Eastern Australia. The economic impact was particularly evident in high-frequency measures of activity, such as hospitality and entertainment, which sank to depressed levels. The decline in yields was largely reversed in September amid cautious optimism regarding business conditions and the RBA saying that the Delta variant has "delayed, but not derailed, the recovery". With the economy expected "to return to its pre-Delta path by mid-2022", the central bank maintained its view that the "central scenario" for an increase in the cash rate "will not be met before 2024". The Commonwealth Government 10-year bond yield ended the quarter four basis points lower at 1.49% while its 2-year counterpart ended two basis points lower at 0.04%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, rose by 0.31% during the period, in Australian dollar terms.

## Outlook

The Reserve Bank of Australia has said they are looking to see sustained wages growth above 3% to give them confidence that an increase in inflation will be sustained and broad based. The central bank forecasts do not show this being achieved within the tenor of the April 2024 yield curve control horizon. However, some have made the point that the lack of foreign migrants could see the labour market tighten more than the central bank has forecast leading to an earlier hiking cycle as their wage growth targets are achieved. This upbeat assessment saw the central bank taper asset purchases following their July meeting, but the lockdowns will see a contraction in third quarter growth, and this has tempered some hawkish early rate hike calls.

## 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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