Future Directions Australian Bond

Quarterly Investment Option Update

30 September 2022

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 this 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	4 / Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Fixed interest securities and cash	85
Inflation linked bonds	15

Actual Allocation	%
International Fixed Interest	2.13
Australian Fixed Interest	69.35
Cash	28.52

Fund Performance

Against a backdrop of ongoing difficult market conditions, the Fund posted a negative return for the September quarter, though outperformed its benchmark (before fees). The conventional government bond component managed by Macquarie outperformed, while the inflation-linked component managed by Ardea underperformed their respective benchmarks. Both were negative in absolute terms.

Macquarie shifted their positioning from neutral to long-duration mid quarter, as they believe the yield curve will flatten as the US Federal Reserve (Fed) will likely over tighten policy rates. This saw a positive contribution to performance late in the quarter, though security selection offset some of these gains. They also reduced their weighting to Australia relative to the US in the front end of the curve, given the Fed's terminal pricing moved above that of the Reserve Bank of Australia (RBA) pricing.

In regard to Ardea's performance, despite positive contributions from defensive options strategies towards the end of the period as market volatility increased, the portfolio underperformed overall, with other strategies in the portfolio such as yield arbitrage detracting from performance, amid large moves in yields.

Market Review

Australian bond yields were volatile over the September quarter, with the yield curve initially falling through July, before bouncing to higher levels by the end of September. Alongside many global peers, the RBA remained committed to tightening economic conditions in order to return elevated inflation towards targeted levels. Whilst jobs data remains strong and economic data releases (outside of housing) remain reasonable, inflation remains high and rising. However, following four consecutive "outsized" 50 basis point (bp) hikes, the RBA had hinted at slowing the pace of further rate rises going forward. Indeed, in early October, the RBA delivered a more "normal" 25bp hike, with RBA Governor Lowe pointing to lower wage rises compared to the likes of the US and lower impact from rising energy costs compared to the UK and Europe. At the end of the quarter, Australian 10-year government bond yields reached 3.89%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -0.64% during the period, in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, returned -1.91% over the same timeframe, as this benchmark is more heavily weighted to longer-duration (higher interest rate sensitivity) assets.

Outlook

While interest rate rises are likely to continue, the RBA has slightly tempered its hawkishness, slowing the pace of hikes in October amid awareness of downside risks to the economy. High household debt levels and a large share of variable rate loans in Australia are making rate hikes more potent, and thus may reduce the need to raise rates as much as some expect. Recession in the year ahead remains a moderate possibility as delayed impacts of rate rises come further into play.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0693AU**
Flexible Lifetime - Investments (Series 2)	AMP1409AU**

**Closed to new and existing investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS