



Future Directions International Bond

Quarterly Investment Option Update

31 December 2023

Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Bloomberg Global Aggregate Index (Hedged to AUD) 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 this product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	5 years
Standard Risk Measure	5/Medium to High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Cash	0
Global fixed interest	100

Actual Allocation	%
Fixed Income	99.67
Cash	0.33

Fund Performance

For the December quarter, the Fund posted a very strong return and outperformed the benchmark (before fees).

The global government bond segment of the portfolio outperformed its custom GDP weighted (ex China) sovereign bond benchmark. Colchester's outperformance was driven by bond selection as well as currency selection mid to late quarter. Kapstream's outperformance meanwhile was mainly generated early in the quarter, through positions held in Japan, Germany and Poland.

The global credit segment of the portfolio, managed by Blackrock and Morgan Stanley, also outperformed the benchmark, with both managers' investment grade credit positioning having a positive impact on performance later in the period. BlackRock's positions in financials, particularly through an overweight to banking, aided the return. Morgan Stanley's out-performance was driven by overweight positioning in BBB rated corporates, bottom-up security selection in European names, as well as positioning in financials.

Finally, the global securitised segment of the portfolio, managed by Wellington, marginally underperformed its benchmark, though still generated a very strong absolute return. The small underperformance was driven, mid-quarter, by sector allocation and security selection.

Market Review

The December quarter was characterised by two distinct phases within global bond markets. In October, bonds were facing the prospect of another year of negative returns as strong economic momentum continued, leading to further, but more measured hawkish sentiment from developed central banks. This environment pushed bond prices lower and yields higher. However, encouraged by progress being made to bring inflation closer to target levels, the US Federal Reserve made a dovish pivot in November, leading to a sustained rally for the remainder of the quarter in fixed income markets.

In line with the rally in most risk assets, corporate bond spreads tightened by 21bps, with much of the movement occurring in November and December, bringing them back to levels not seen since the early stages of the Fed tightening cycle in 2022. Corporate balance sheets remained relatively strong, despite continued concerns about further increases in default rates and downgrades. Global bonds, as measured by the Bloomberg Global Aggregate Index (\$A hedged), returned 5.4% in Australian dollar terms. Global investment grade and high yield credit meanwhile returned 6.9%% and 7.1% respectively, as measured by the Bloomberg Global Aggregate Corporate Index (\$A hedged) and Bloomberg Global High Yield Index (\$A hedged).

Outlook

Global bond markets are likely to continue to focus on predicted paths for US interest rates. Large drawdowns in recent years, resulting in bonds available at significantly cheaper prices, lead us to believe returns going forward will likely be reasonable; perhaps around running yield or a little more, as inflation slows, and central banks cut rates. Furthermore, bonds may serve as a diversifier to growth assets in the event of further economic slowdown.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0694AU**
Flexible Lifetime - Investments (Series 2)	AMP1420AU**

**Closed to new and existing investors

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