

# Future Directions International Bond Fund

Quarterly Investment Option Update

30 June 2016

## Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the 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 please visit [www.amp.com.au](http://www.amp.com.au)

## Availability

Product name	APIR
<a href="#">AMP Flexible Lifetime Super</a>	AMP0658AU
<a href="#">AMP Flexible Super - Retirement account</a>	AMP1356AU
<a href="#">AMP Flexible Super - Super account</a>	AMP1485AU
<a href="#">CUSTOM SUPER</a>	AMP0658AU
<a href="#">Flexible Lifetime - Allocated Pension</a>	AMP0605AU
<a href="#">Flexible Lifetime - Term Pension</a>	AMP0928AU
<a href="#">Flexible Lifetime Investment</a>	AMP0694AU
<a href="#">Flexible Lifetime Investment (Series 2)</a>	AMP1420AU
<a href="#">METCASH SUPERANNUATION PLAN</a>	AMP0658AU
<a href="#">MultiFund Flexible Income Plan</a>	AMP0731AU
<a href="#">Signature Super</a>	AMP0802AU
<a href="#">Signature Super Allocated Pension</a>	AMP1158AU

## Investment Option Overview

<b>Investment category</b>	Fixed Interest - Enhanced Fixed Interest
<b>Suggested investment timeframe</b>	2-3 years
<b>Relative risk rating</b>	Low - Medium
<b>Investment style</b>	Multi-Manager

Asset Allocation	Benchmark (%)	Range (%)
International fixed interest and cash	100	0-100

## Portfolio Summary

- > Global bond yields continued to fall over the quarter, some to new record lows.
- > The two largest segments of the Fund – the global government bond and global credit segments – underperformed their respective benchmarks while the global aggregate and global securitised segments outperformed.
- > Very low sovereign bond yields point to low medium term returns.

## Investment Option Commentary

The Fund posted a positive absolute return but underperformed its benchmark during the quarter. The two largest segments of the Fund – the global government bond and global credit segments – underperformed their respective benchmarks while the global aggregate and global securitised segments outperformed. All underlying fund managers posted positive returns for the quarter.

Within the global government bond segment of the Fund, the AMP Capital portfolio outperformed its benchmark, mainly due to interest rate management with duration and curve strategies both contributing to the outperformance. The portfolio was long in the Canadian dollar, Australian dollar and Asian duration throughout the entire quarter, which also added to the outperformance. Colchester underperformed the benchmark during the quarter. Underperformance was largely derived in June due to short duration positioning as yields fell. Kapstream narrowly underperformed the benchmark for the quarter. Performance was weighed down in April when underweights to Switzerland and Japan were the main detractors. This was partially offset in May when the portfolio's long duration position to Continental European and Australian bonds contributed to relative performance as yields fell. The global credit segment of the Fund posted a strong positive return but underperformed its benchmark. Morgan Stanley's slight underperformance was largely derived in June when the portfolio was weighed down by interest rate strategies – underweight in the US and eurozone – exposure to investment grade credit where spreads widened, and the portfolio's convertible bond holdings which were impacted by weaker equity and credit markets. BlackRock also underperformed its benchmark, driven primarily by poor credit security selection in May as the market sell-off impacted commodity-driven issuers. Relative performance was also weak in June when spreads widened aggressively immediately following the 'Brexit' vote. In the global aggregate segment, Putnam comfortably beat the benchmark. Outperformance was primarily due to an overweight allocation to investment grade corporate bonds in April as credit spreads tightened, and by positive mortgage credit performance. Finally, the global securitised segment managed by Wellington outperformed the benchmark during the quarter. Outperformance was mostly derived in April when the portfolio benefitted from positive sector allocation, especially to collateralised loan obligations, and security selection, especially within commercial mortgage-backed securities and agency mortgages. Performance was further boosted in June by security selection in 30-year mortgage pass-throughs.

### Market commentary

Global bond yields continued to fall over the quarter, some to new record lows. Economically, the quarter was dominated by event risk, volatility and switches between a risk-on and risk-off bias. For most of the period speculation on the likely timing of a US interest rate rise dominated sentiment, but towards the tail-end of June the UK referendum (Brexit) on whether to remain or leave the European Union was the key focus. The UK referendum, on 23 June, resulted in a decision to leave the European Union. The result blindsided global markets, which had largely factored in a decision to remain, and led to an immediate risk-off stance. Both the UK and Europe now face a protracted period of political and economic uncertainty. The British pound and shares fell sharply following the decision, as did the euro and European shares, albeit to a lesser extent. Global shares were also swiftly impacted. Safe haven assets including gold, the US dollar, the Japanese yen and bonds all rose. Following the decision, central banks were quick to emphasise they would provide whatever liquidity is required to stabilise markets. Yields dropped precipitously after the UK's referendum result to leave the European Union, as traders bought-up fixed interest assets in a typical 'flight-to-safety' reaction that market-shocks (such as the Brexit referendum) tend to produce. US, UK, German and Japanese 10-year government bond yields all fell, to finish the quarter respectively at 1.52%, 0.95%, -0.13% and -0.23%.

### Outlook

Very low sovereign bond yields point to low medium-term returns. However, it's difficult to get too bearish in a world of too much saving, spare capacity, weak commodity prices and low inflation. Indeed, as global risks remain, bonds may still prove valuable to investors during any increase in volatility that may likely be experienced over the short to medium-term. We expect bond yields to rise gradually as volatility abates and economic conditions improve.

## Contact Us

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)

### What you need to know

This publication has been prepared by AMP Life Limited ABN 84 079 300 379, AFSL No. 233671 (AMP Life). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying Investment Manager only and not necessarily the views of the AMP Group. No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. AMP Life is part of the AMP Group. In providing the general advice, AMP Life and AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

The information in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner.

The investment option referred to in this publication is available through products issued by AMP Superannuation Limited ABN 31 008 414 104, AFSL No. 233060 (ASL) and/or AMP Life. Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement for the relevant product, available from ASL, AMP Life or your financial planner.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in (underlying fund). The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither AMP Life, ASL, any other company in the AMP Group nor underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance.