

# Future Directions Australian Bond

Quarterly Investment Option Update

31 December 2017

## Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the UBS Composite Bond (All Maturities) Index on a rolling 3 year basis through investing mainly in short and long term fixed interest securities, including government securities, government-related securities, corporate securities, asset-backed securities and hybrid securities (such as convertible notes) in both developed markets (Australian and overseas) 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>             | AMP0066AU |
| <a href="#">AMP Flexible Super - Retirement account</a> | AMP1345AU |
| <a href="#">AMP Flexible Super - Super account</a>      | AMP1474AU |
| <a href="#">CUSTOM SUPER</a>                            | AMP0066AU |
| <a href="#">Flexible Lifetime - Allocated Pension</a>   | AMP0599AU |
| <a href="#">Flexible Lifetime - Term Pension</a>        | AMP0920AU |
| <a href="#">Flexible Lifetime Investment</a>            | AMP0693AU |
| <a href="#">Flexible Lifetime Investment (Series 2)</a> | AMP1409AU |
| <a href="#">MultiFund Flexible Income Plan</a>          | AMP0732AU |
| <a href="#">Signature Super</a>                         | AMP0796AU |
| <a href="#">Signature Super Allocated Pension</a>       | AMP1149AU |

| Asset Allocation                   | Benchmark | Range (%) |
|------------------------------------|-----------|-----------|
| Fixed interest securities and cash | 100       | 0-100     |

| Credit Rating Exposure | %    |
|------------------------|------|
| AAA                    | 60.6 |
| AA                     | 23.5 |
| Not Rated              | 0.1  |
| Cash                   | 15.8 |

## Investment Option Overview

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

## Portfolio Summary

- > Australian bond yields moved lower early in the quarter before rising in December as the tone of data releases improved.
- > The Fund posted a positive return but underperformed its benchmark during the quarter.
- > Australian sovereign fixed income and corporate credits remain relatively attractive from an international perspective.

## Investment Option Commentary

The Fund posted a positive return, but underperformed its benchmark in the December quarter. The largest component of the portfolio, held in conventional government bonds and managed by **AMP Capital**, and the smaller inflation-linked component, managed by **Ardea**, underperformed their respective benchmarks.

**AMP Capital's** performance was negatively impacted in the latter part of the quarter primarily by the overall long duration position held as yields pushed higher during December. Foreign exchange positioning also detracted slightly from returns. The Fund's yield curve positioning contributed to returns, in particular in the US.

Inflation-linked bond fund manager **Ardea** posted a positive return for the quarter, but underperformed its benchmark. The portfolio's nominal yield curve steepening positioning was the primary detractor from returns after some strong earlier performance.

## Market commentary

Australian government bond yields moved lower over the course of the first two months of the quarter, weighed down by anaemic wages growth and a deceleration in retail sales. Moreover, a lower than expected third quarter inflation result reinforced a consensus view that monetary policy will remain unchanged for an extended period. Domestic yields moved higher during December as the overall tone in data releases improved during the month, which included continued strengthening in the labour market. In addition, sentiment was buoyed by mid-year updates from federal and state governments showing broad improvements in projected fiscal positions. The Australian Commonwealth 10-year bond yield ended the quarter at 2.63%, while its 2-year counterpart ended at 1.97%.

## Outlook

Australian yields continue to trade at a premium to those available in Japan and Europe, making Australian sovereign fixed income and corporate credit relatively attractive from an international and yield perspective. The Reserve Bank of Australia currently has a short-term neutral policy in regards to the timing and direction of interest rate changes and conflicting economic pressures mean it is too early to be talking about interest rate hikes. Housing market and household debt levels continue to be an area for concern.

## Ardea Investment Management

### Style/focus – Inflation linked

Ardea oversees an Australian inflation-linked bond portfolio. The exposure to inflation-linked fixed income provides very defensive characteristics and includes an important hedge against inflation. The Ardea strategy invests mainly in inflation linked bonds, but can also invest in nominal government and semi-government bonds, inflation derivatives, interest rate derivatives, and bank bills. Ardea is a longer term, fundamentally driven, value investor with a focused approach across three main strategies – inflation, interest rates and arbitrage. The highly experienced team has worked together for a number of years, previously at Credit Suisse Asset Management before forming Ardea in 2008. Ardea is majority owned by its investment team.

## Contact Us

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