

Future Directions International Bond Fund

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 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

Availability

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

Investment Option Overview

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

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

Portfolio Summary

- > The Fund posted a positive return for the December quarter, but underperformed its benchmark
- > Global government bond yields were somewhat mixed in the quarter
- > Very low, though rising, sovereign bond yields point to low medium-term returns

Investment Option Commentary

The Fund posted a positive return for the December quarter, but underperformed its benchmark. In terms of absolute returns, all underlying managers produced positive returns, with the Fund's global credit exposure being the strongest performer.

Within the largest segment of the Fund – the global government bond segment – the **AMP Capital** portfolio underperformed its benchmark. Interest rate positioning was the main detractor, particularly during December when the portfolio was positioned long duration with a curve flattener (expressed through the US long end) as global yields rose. In particular, the main front-end long duration positions in Australia and Canada were large detractors from performance as data, especially employment, continued to print strongly.

Also within the global government bond segment, **Kapstream** outperformed, while **Colchester** underperformed their benchmarks over the quarter. **Kapstream** retains a long duration position in Australia and a short duration position in the US. From a performance perspective, a long position in the British Pound versus the Canadian dollar was the main currency contributor early in the quarter, while active short positions in Mexico and Italy and an active long position in New Zealand contributed in the latter part of the quarter. **Colchester's** performance was primarily negatively impacted by bond selection, such as the underweight position in European nominal bonds and being overweight Mexican bonds. Currency positioning overall also slightly detracted from returns.

Within global credit, **Morgan Stanley** outperformed its benchmark. The portfolio's overall investment grade credit position had a positive impact on performance, driven primarily from positioning in financials, specifically the portfolio's overweight to banks. An allocation to high-yield and convertible bonds also contributed, with the portfolio also benefitting overall from duration and foreign exchange positioning.

Also within global credit, **BlackRock** outperformed its benchmark. Credit security selection strategies contributed positively to performance, driven by overweight allocations to select US and European banks, whilst asset allocation and macro rates strategies overall having minimal impact.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – produced a positive return during the quarter. Allocations to FNMA Delegated Underwriting and Servicing (DUS) bonds and non-agency residential mortgage backed securities (RMBS) had a positive impact on performance. Conversely, an underweight allocation to Federal National Mortgage Association (FNMA) securities was the main detractor.

Market commentary

Global government bond yields were mostly mixed over the first two months of the December quarter. The US 10-year bond yield moved higher amid continued signs of strength in the US economy and generally favourable corporate profit results. In contrast, yields in Japan edged lower, while those in Germany remained relatively stable. The mixed pattern of yield movements continued into December, amid the legislative passage of US tax reforms and a commitment by the European Central Bank to continue with monetary stimulus. The US 10-year Treasury bond yields ended the quarter at 2.41%, with comparable maturities in Germany and Japan ending at 0.43%, and 0.048% respectively.

Outlook

Very low, though rising, sovereign bond yields point to low medium-term returns. The abatement of deflationary pressures, as commodity prices trend up, the gradual reduction in spare capacity and a shift in policy focus from monetary to fiscal stimulus indicate that yields are likely to steadily trend higher.

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