Future Directions Australian Bond

Quarterly Investment Option Update

30 June 2018

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0066AU
AMP Flexible Super - Retirement account	AMP1345AU
AMP Flexible Super - Super account	AMP1474AU
CUSTOM SUPER	AMP0066AU
Flexible Lifetime - Allocated Pension	AMP0599AU
Flexible Lifetime - Term Pension	AMP0920AU
Flexible Lifetime Investment	AMP0693AU
Flexible Lifetime Investment (Series 2)	AMP1409AU
MultiFund Flexible Income Plan	AMP0732AU
Signature Super	AMP0796AU
Signature Super Allocated Pension	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

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

Portfolio Summary

> Australian bond yields mirrored volatility in overseas markets during the June quarter.
> The Fund posted a positive return and comfortably outperformed its benchmark.
> Australian sovereign fixed income and corporate credits remain relatively attractive from an international perspective.

Investment Option Commentary

The Fund posted a positive return and comfortably outperformed its benchmark over the June 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**, outperformed their respective benchmarks.

AMP Capital's interest rates positioning was the main contributor to performance over the quarter, with both duration positioning and yield curve positioning adding to returns. The portfolio's bias to be long duration in shorter-term maturities performed well, particularly in Australia, Canada, and Korea. The duration positioning and bias for front-end steepener positions in the US also added significantly to performance.

Inflation-linked bond fund manager **Ardea** performed strongly over the quarter, posting a positive return and outperforming its benchmark. Performance was driven by the portfolio's interest rate derivatives strategy via options that benefitted from the volatility in markets over the quarter.

Market commentary

Global government bonds yields moved higher in April, as markets regained their appetite for risk amid further evidence of strengthening economic conditions. In May, fears of a populist anti-European government coming to power in Italy prompted a sell-off in the debt of peripheral European nations and a flight to the quality of higher rated issuers. The US was one of the recipients of the shift in investment flows. After trending upwards early in June, amid an easing of political uncertainty in Italy and optimistic economic commentary from central bankers in Europe and the US, yields subsequently reversed this momentum to fall amid escalating trade tensions. The US 10-year bond yield ended the quarter at 2.86%, while the German 10-year bond yield and the Japanese 10-year bond yield ended at 0.30% and 0.04% respectively.

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 has a short-term neutral policy in regards to the timing and direction of interest rate changes. However, conflicting economic pressures and a low inflationary environment mean it is too early to be considering interest rate hikes. Housing market and household debt levels continue to be an area for concern.

Contact Us

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