

Future Directions International Bond Fund

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 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 (before fees) for the June quarter and 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 (before fees) for the June quarter and underperformed its benchmark. In terms of absolute returns, the Fund's global securitised bond exposure was 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 added to returns, with both duration and yield curve positioning contributing. The bias to be long duration in short-dated bonds where valuations are attractive performed well, particularly in Australia, Canada, and Korea. In addition, the duration positioning and bias for front-end steepeners in the US also added significantly to performance. Currency positioning was the main detractor from performance.

Also within the global government bond segment, **Kapstream** outperformed, while **Colchester** underperformed the benchmark over the quarter. Key contributors to **Kapstream's** performance included a US curve flattener position during the latter part of the quarter, which

more than offset the negative impact of steeper positioning in Australia and New Zealand. **Colchester's** performance was impacted negatively by currency selection, in particular, the long positions in Mexican peso, British pound and Swedish krona.

Within global credit, **Morgan Stanley** underperformed its benchmark. The portfolio is positioned to be overweight financials and underweight industrials and utilities when measured on a spread duration basis. Within investment grade credit, an overweight position within the banking sector initially contributed to performance, however this effect was reversed in May and June. This offset a positive contribution from non-financials, particularly consumer non-cyclicals. An allocation to high yield bonds detracted from performance while exposure to convertible bonds aided performance.

Also within global credit, **BlackRock** underperformed its benchmark. Credit security selection was the main detractor from performance, with asset allocation strategies also weighing on returns. Interest rate management was broadly neutral.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – produced a positive return during the quarter and outperformed its benchmark. Sector allocation detracted from performance, particularly exposures to Federal National Mortgage Association (FNMA) Delegated Underwriting and Servicing (DUS) bonds, which offset the positive impact of an underweight exposure to conventional FNMA bonds where cash flows are passed through to investors. Security selection and duration and yield curve positioning detracted overall from performance.

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

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 yields are likely to steadily trend higher. Emerging market economies have seen some outflows.

Contact Us

Web: www.amp.com.au

Email: 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.