

Future Directions Australian Bond

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the benchmark over a rolling three-year basis. The portfolio invests in short and long-term fixed interest securities including inflation linked bonds, government, semi-government, bank, corporate and asset-backed securities, derivatives and currency. The portfolio may also have exposure to international securities in both developed and emerging markets. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars. The benchmark is a combination of 85% Bloomberg AusBond Government 0+ Year Index and 15% Bloomberg AusBond Inflation Government 0+ Year Index.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Investment Option Overview

Investment category	Australian fixed interest
Suggested investment timeframe	2 years
Relative risk rating	Low – Medium
Investment style	Active

Asset Allocation	Benchmark (%)
Australian fixed interest	100
Cash	0

Portfolio Summary

- > The Fund posted a positive return (before fees) during the September quarter and outperformed its benchmark.
- > Both underlying managers outperformed their respective benchmarks during the period.
- > We expect the Reserve Bank of Australia to remain on hold for a prolonged period.

Fund Performance

The Fund posted a positive return (before fees) and outperformed its benchmark during the September quarter. The largest component of the portfolio, held in conventional government bonds and managed by AMP Capital, outperformed its benchmark, with the smaller inflation-linked component, managed by Ardea, also outperforming its respective benchmark.

AMP Capital's outperformance was assisted by exposure to semi-government securities, which outweighed the negative impact overall from interest rates positioning. Long duration positions in the longer-dated segment of the US yield curve also detracted.

Inflation-linked bond fund manager Ardea's relative performance was positively impacted in particular by favourably positioning the portfolio for the September issuance of a new bond with a 2050 maturity, which was unique as its maturity is 10 years longer than what was previously available.

Market Commentary

Government bond yields in Australia followed a similar path to their overseas counterparts to drift higher in July before retracing somewhat when weak inflation data for the June quarter was confirmed. In August, bond yields were lower, driven by geopolitical factors such as ongoing global trade tensions and political instability domestically which saw the replacement of the Prime Minister. September saw this trend reverse, with local bond yields rising amid a broad bond market sell-off, as better than expected economic data globally was buoyed by stronger domestic economic growth results for the June quarter and improving labour market measures. The Commonwealth Government 2-year bond yield ended the quarter at 2.03%, while the Commonwealth Government 10-year bond yield ended at 2.67%.

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.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0066AU*
AMP Flexible Super - Retirement account	AMP1345AU*
AMP Flexible Super - Super account	AMP1474AU*
CustomSuper	AMP0066AU*
Flexible Lifetime - Allocated Pension	AMP0599AU*
Flexible Lifetime - Term Pension	AMP0920AU*
Flexible Lifetime - Investments (Series 1)	AMP0693AU*
Flexible Lifetime - Investments (Series 2)	AMP1409AU*
SignatureSuper	AMP0796AU*
SignatureSuper - Allocated Pension	AMP1149AU*
SignatureSuper Select	AMP0796AU*

*Closed to new investors

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