

Future Directions International 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, higher than the return from the Bloomberg Barclays Global Aggregate Index (hedged back to Australian dollars) on a rolling three-year basis. This investment option invests in a diversified portfolio of short-and long-term global fixed income securities that may include government, government-related, corporate, asset backed and hybrid securities in both developed and emerging markets.

Investment Option Performance

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

Investment Option Overview

| | |
|---------------------------------------|-----------------------|
| Investment category | Global fixed interest |
| Suggested investment timeframe | 3 years |
| Relative risk rating | Low-Medium |
| Investment style | Multi-Manager |

| Asset Allocation | Benchmark (%) |
|-------------------------|----------------------|
| Global fixed interest | 100 |
| Cash | 0 |

Portfolio Summary

- > The Fund posted a positive return (before fees) during the September quarter, outperforming the benchmark.
- > Global government bond yields rose while global credit markets were stronger during the period.
- > Very low, though rising, sovereign bond yields point to low medium-term returns.

Fund Performance

The Fund posted a positive return (before fees) during the September quarter and outperformed its benchmark. In terms of absolute returns, the Fund's performance was led by the global credit exposure.

Within the largest segment of the Fund – global government bonds – the AMP Capital portfolio underperformed its benchmark. Interest rate positioning detracted from returns, with duration and yield curve strategies negatively impacting. The long duration positions and long-end flatteners in the longer-dated segment of the US yield curve detracted during the period. Conversely, the short duration bias in the front-end of the US yield curve aided performance. The portfolio also benefitted from outright short duration positions in Europe, following the shift from European flatteners later in the period.

Within the global government bond segment, Kapstream and Colchester outperformed their benchmark. A long position in South Korea was the main contributor to Kapstream's performance. Colchester's bond selection was the primary driver of relative returns. Underweight positions in the UK and the US and an overweight position in New Zealand were the main contributors. Currency selection also contributed to returns, in particular long positions in the Mexican peso and Swedish krona and a short position in New Zealand dollars.

Within global credit, Morgan Stanley outperformed whereas BlackRock performed in line with their benchmark. Within Morgan Stanley's portfolio, investment grade credit positioning had a positive impact on performance driven mainly by positioning in Financials, specifically the portfolio's overweight to the Banking sector. The portfolio's positioning to industrials detracted from performance, particularly within capital goods, while an allocation to high yield bonds and convertible bonds contributed positively. Blackrock's credit security selection contributed, interest rate strategies were mixed and asset allocation strategies detracted.

The smallest segment of the Fund – the global securitised segment managed by Wellington – marginally underperformed its benchmark. Sector allocation had a positive impact overall on performance, particularly exposures to Collateralised Mortgage Obligation (CMO) bonds and the underweight exposure to conventional Federal National Mortgage Association (FNMA) bonds, where cash flows are passed through to investors. Security selection had a neutral impact on performance. However, duration and yield curve positioning detracted from returns.

Market Commentary

Global government bond yields drifted higher for the majority of July, with trade tensions continuing to influence financial markets. In August, global bonds experienced a moderate rally across most markets, as geopolitical factors appeared to supersede economic data during the period, with trade negotiations between the US and Mexico, ongoing trade friction between the US and China and emerging market risks dominating headlines. September saw global bond yields rise as bond markets sold off on the back of positive economic data releases which outweighed geopolitical influences, in particular ongoing trade tensions which continued to occupy the attention of market participants. The US 10-year bond yield ended the quarter at 3.06%, while the German 10-year bond yield and its Japanese counterpart ended at 0.47% and 0.13% respectively.

Outlook

Very low, though rising, sovereign bond yields point to low medium-term returns. The abatement of deflationary pressures, the gradual reduction in spare capacity and a shift in policy focus from monetary to fiscal stimulus, primarily in the US, indicate yields are likely to steadily trend higher. Emerging market economies continue to see some outflows.

Availability

| Product name | APIR |
|--------------------------------------------|------------|
| Flexible Lifetime - Allocated Pension | AMP0605AU* |
| SignatureSuper - Allocated Pension | AMP1158AU* |
| SignatureSuper Select | AMP0802AU* |
| AMP Flexible Lifetime Super | AMP0658AU* |
| Flexible Lifetime - Term Pension | AMP0928AU* |
| SignatureSuper | AMP0802AU* |
| CustomSuper | AMP0658AU* |
| AMP Flexible Super - Retirement account | AMP1356AU* |
| AMP Flexible Super - Super account | AMP1485AU* |
| Flexible Lifetime - Investments (Series 1) | AMP0694AU* |
| Flexible Lifetime - Investments (Series 2) | AMP1420AU* |

*Closed to new investors

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