

# Future Directions Australian Bond

Quarterly Investment Option Update

31 December 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](http://www.amp.com.au)

## Investment Option Overview

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

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Australian fixed interest	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
Australian fixed interest	86.69
Global fixed interest	2.39
Cash	10.92

## Portfolio Summary

- The Fund posted a positive return (before fees) in the December quarter, but underperformed the benchmark.
- In a general 'risk-off' environment, Australian government bond yields fell while domestic credit spreads widened during the period.
- Both underlying managers generated positive returns, but underperformed their respective benchmarks.

## Investment Option Commentary

The Fund posted a positive return (before fees) in the December quarter, but underperformed the benchmark. While each underlying manager generated positive performance, the largest component of the portfolio, held in conventional government bonds and managed by AMP Capital, underperformed its benchmark, with the smaller inflation-linked component, managed by Ardea, also underperforming its respective benchmark.

AMP Capital's interest rate strategies overall were the main driver of underperformance, with the majority due to the aggressive repricing of the future path of US Federal Reserve rate hikes later in the quarter which saw a sharp change in the Eurodollar curve. In addition, a short duration bias in the UK and Europe underperformed, with yields continuing to fall amid ongoing uncertainty around Brexit negotiations. The steepening bias in Asia, mostly in Korea, also detracted as global yield curves continued to flatten, with the short-dated segment of the Korean yield curve inverting during the period.

Inflation-linked bond fund manager Ardea's relative performance was hampered in the 'risk-off' environment by positioning in physical and derivatives-based inflation linked bonds. Specifically, a breakeven curve steepening position detracted, as the difference between short-dated and long-dated inflation expectations narrowed. In addition, an inflation derivatives position, held to replace the underweight exposure to physical inflation-linked bonds, did not provide the usual hedge as normal relationships in inflation linked markets broke down.

## Market Commentary

Government bond yields in Australia largely mirrored their overseas counterparts to fall significantly during the December quarter, as financial markets experienced increased volatility amid predominant 'risk-off' sentiment. Earlier in the quarter, domestic bond yields showed some divergence from offshore bond movements, in particular the US, with the local market receiving support from strong local economic data on balance. However, in line with offshore moves domestic bonds rallied strongly during December, with market pessimism being further impacted by softer local economic data which included a weak gross domestic product reading for the September quarter and mixed labour market measures, while the continued fall in house prices also weighed on the domestic market. The Commonwealth Government 2-year bond yield ended the quarter at 1.90%, while the Commonwealth Government 10-year bond yield ended at 2.32%.

## 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 stated short-term neutral policy in regards to the timing and direction of interest rate changes. However, a weak economic backdrop is more likely to result in a rate decrease in the short term. Housing market and household debt levels continue to be an area for concern, although currently there is little evidence of significant non-performing loans.

## 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

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)



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