

# Future Directions International Bond

Quarterly Investment Option Update

31 March 2019

## 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](http://www.amp.com.au)

## Investment Option Overview

<b>Investment category</b>	International Fixed Interest
<b>Suggested investment timeframe</b>	3 years
<b>Relative risk rating</b>	Low to Medium
<b>Investment style</b>	Multi-Manager

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

<b>Actual Allocation</b>	<b>%</b>
International fixed interest	99.80
Cash	0.20

## Portfolio Summary

- The Fund posted a positive return (before fees) in the March quarter, and outperformed the benchmark.
- Global government bond yields fell, while global credit spreads continued to tighten during the period.
- All six underlying managers generated positive returns, with two marginally underperforming their respective benchmarks.

## Fund Performance

The Fund posted a positive return (before fees) in the March quarter, and outperformed the benchmark. All six underlying managers generated positive returns, with two marginally underperforming their respective benchmarks. The largest segment of the Fund – global government bonds – recorded positive absolute performance. Within the segment, the AMP Capital portfolio posted a positive return and marginally underperformed its benchmark. Interest rate strategies were the main driver of underperformance, whilst excess returns from currencies contributed. Interest rate strategies overall detracted from performance. The portfolio's long duration positions in Australia and Thailand contributed, however UK positions gave back some performance on the back of heightened Brexit concerns. In addition, underweight positions in South Korea and having no exposure to Russian duration also detracted over the period.

Also within the global government bond segment, **Kapstream** outperformed their benchmark. Key contributors to Kapstream's performance included strategic active long positions in Australia and New Zealand, whereas a short position in Mexico was a major detractor. The **Colchester** global government bond portfolio marginally underperformed its benchmark, with bond selection detracting from relative returns whereas currency strategies added value. Underweight positions in the UK, the US and Europe were the main bond detractors. The main currency contributors were short positions in the Swiss franc and the Australian dollar. Within global credit, **Morgan Stanley** outperformed whilst **Blackrock** performed in line with their benchmark in a period where global credit markets performed well. **Morgan Stanley's** portfolio recorded the Fund's strongest absolute return and value add overall, with investment grade credit positioning contributing driven mainly by positioning in Financials, specifically the portfolio's overweight to the banking and insurance sectors. Performance also benefited from an allocation to high yield bonds. **Blackrock's** credit security selection added value during the period, while asset allocation and interest rates strategies were mixed. The smallest segment of the Fund – the global securitised segment managed by **Wellington** – recorded a positive absolute return and outperformed its benchmark. Sector allocation contributed to returns, primarily due to an allocation to FNMA Delegated Underwriting and Servicing (DUS) bonds, non-agency residential mortgage-backed securities (RMBS) and agency Collateralised Mortgage Obligation (CMO) bonds. Security selection was also positive, whereas duration management and yield curve positioning were detractors for relative performance.

Kapstream Capital is a global fixed income fund manager providing traditional and alternative investment strategies. Kapstream was appointed to invest in global government securities. The Kapstream strategy is a core benchmark orientated mandate focusing on capital preservation, risk management and relative value insights. The strategy is a combination of secularly orientated beta management, relative value alpha strategies and offensive risk management trades. The rationale for appointing Kapstream was its risk orientation and performance track record.

## Market Review

Global government bond yields fell in January amid a rebound in risk assets. Led by the US, market expectations pivoted to a pause in US Fed rate hikes after the central bank signalled a more dovish tone. Yields were largely rangebound in February, with geopolitical influences such as improved confidence of a positive resolution to the US-China trade conflict appearing to outweigh largely poor economic data releases and further economic growth forecast downgrades by central banks. March saw a significant bond market rally, with fears of a global growth slowdown gaining further traction as softer economic data releases on balance were accompanied by a shift to a more dovish tone from key central banks. Notably, markets saw an inversion of the 3-month to 10-year US Treasury yield curve late in the period, an event which can sometimes be a signal for recession. The US 10-year bond yield ended the quarter at 2.41%, while the German 10-year bond yield and its Japanese counterpart ended at -0.07% and -0.08% 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, although the pace of change is likely to moderate in the shorter-term. Emerging market economies continue to experience 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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