



Future Directions International Bond

Quarterly Investment Option Update

30 June 2019

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 for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International Fixed Interest	100
Cash	0

Actual Allocation	%
International Fixed Interest	99.66
Cash	0.34

Fund Performance

The Fund posted a positive return (before fees) in the June quarter and outperformed the benchmark. All six of the Fund's underlying managers generated positive absolute returns, with three outperforming 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 but underperformed its benchmark. Interest rate strategies detracted from overall performance. Spread trades between Canadian and US short-dated maturities had a negative impact as the Canadian front end underperformed following strong inflation data. Sovereign risk positioning contributed to performance, as spreads in peripheral countries tightened, with currency positioning also making a positive contribution.

Elsewhere within the global government bond segment, **Kapstream** and **Colchester** posted positive returns. Colchester outperformed the benchmark, however Kapstream underperformed. The main detractors from **Kapstream's** performance were active short positions in Italy, France, Belgium and Switzerland. Key contributors included active long positions in Australia, Poland and the UK. **Colchester's** currency allocation and bond selection contributed to relative returns. The main currency contributors were long positions in the Mexican peso and Japanese yen and a short position in the New Zealand dollar. The main bond contributors were overweight positions in Brazilian and US inflation-linked bonds and Mexican nominal bonds.

Within global credit, **Morgan Stanley** and **Blackrock** posted positive returns and outperformed their benchmark. **Morgan Stanley's** investment grade credit positioning had a positive impact on performance. Positioning in financials was the main contributor, specifically overweight exposures to the banking and insurance sectors. Performance also benefitted from positioning in the communications, consumer cyclical, energy, technology and electricity sectors. An allocation to high-yield bonds and convertibles had a positive impact on performance. **Blackrock's** security selection, asset allocation and interest rate strategies contributed to relative performance as central banks signalled a more accommodative monetary policy stance and geopolitical tensions eased.

The smallest segment of the Fund – the global securitised segment managed by **Wellington** – recorded a positive absolute return but underperformed its benchmark. Sector allocation detracted from performance, primarily due to an underweight allocation to 30-year Federal National Mortgage Association (FNMA) bonds where cash flows are passed through to investors. The impact of duration management, yield curve positioning and security selection was broadly neutral.

Market Review

Global government bond yields mostly moved higher in April, amid generally favourable economic data releases. In the US, gross domestic product rose at a stronger than expected rate over the March quarter as contributions from trade and inventory offset slower growth in consumer spending and investment. Yields subsequently reversed direction over the remainder of the June quarter as a lowering of regional growth forecasts stoked expectations of co-ordinated easier monetary policy on the part of major central banks. A mix of dovish pivots by the US Federal Reserve (Fed) and the European Central Bank, generally soft data releases and geopolitical uncertainty in relation to US-China trade negotiations and escalations in US-Iran tensions helped drive global rates to fresh lows and record-low levels in some countries. The US 10-year bond yield ended the quarter at 2.01%, while the German 10-year bond yield and its Japanese counterpart ended at -0.33% and -0.16% respectively.

Outlook

Very low sovereign bond yields and increasing global economic uncertainty point to low short to medium-term returns from global sovereign bonds. Within a generally benign inflationary environment, an unresolved US-China trade dispute causing a flight to safety, and a recent increased bias from central banks towards more accommodative stances; any upward pressure on bond yields is now likely to be subdued for the time being; at least until the global economic environment shows signs of improved sentiment, momentum and visibility.

Availability

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

*Closed to new investors

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