

# PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30 September 2019

## Aim and Strategy

To achieve maximum total return by investing in Australian and overseas bonds, and to preserve capital through prudent investment management. PIMCO applies a wide range of diverse strategies including duration analysis, credit analysis, relative value analysis, sector allocation and rotation and individual security selection. PIMCO's investment strategy emphasises active decision making with a long-term focus and seeks to avoid extreme swings in duration or maturity with a view to creating a steady stream of returns. The portfolio invests in indirect and direct government, corporate, mortgage and other fixed interest securities, the portfolio may also hold cash. It invests predominantly in investment grade securities but may also invest in non-investment grade fixed interest securities and emerging market debt. The benchmark is comprised of Barclays Capital Global Aggregate Bond Index (hedged into Australian dollars) and 50% Bloomberg AusBond Composite 0+ Yr Index

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

<b>Investment Category</b>	Diversified Fixed Interest
<b>Suggested Investment timeframe</b>	5 years
<b>Relative risk rating</b>	4 / Medium
<b>Investment style</b>	n/a
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	50	54
Aust. Fixed Interest	50	46
Cash	0	0

Sector Allocation	%
Government	57
Semi-Government	8
Agency	3
Investment grade corporates	11
High Yield	1
Securitized	10
Emerging Markets	6
Cash and Other	4

Regional Allocation	%
Australia/NZ	46
Japan	7
Europe – EMU	12
Europe – Non-EMU	1
United Kingdom	2
North America	28
Emerging Markets	3
Other	1

Top Holdings	%
Australian Government	26.26
United States Government	15.81
Japanese Government	10.84
Italian Government	4.09
Queensland (state of)	4.01
Spanish Government	3.16
Western Australia (state of)	3.03
New South Wales (state of)	3.02
Northern Territory (state of)	1.34
Victoria (state of)	1.28

## Portfolio Summary

- The strategy underperformed the benchmark over the quarter.
- Central bank accommodation and concerns over decelerating growth spurred market moves.
- PIMCO believe the global economy is about to enter a low-growth “window of weakness” due to ongoing trade tensions and heightened political uncertainty.

## Investment Option Commentary

The strategy underperformed the benchmark over the quarter. Contributors to performance included country selection in the Eurozone, particularly a preference for core Eurozone rates. In addition, Australian interest rate strategies, including curve positioning focusing on the intermediate part of the Australian curve, and an underweight to corporate IG credit contributed. Curve positioning in the U.S., a modest exposure to a basket of high-carry EM currencies, and an overweight to agency MBS all detracted from performance.

## Market Commentary

Softening growth momentum and geopolitical uncertainties, including escalating U.S.-China trade tensions, weighed on investor sentiment. Amid the heightened uncertainty, central banks took accommodative actions: the Federal Reserve and European Central Bank (ECB) both lowered their policy rates, and the latter also announced its quantitative easing (QE) program would resume. Developed market yields broadly fell, spurred by more accommodative central banks and concerns over decelerating global growth. Australian yields generally outperformed, spurred by a local rate cut and market expectations of more cuts to follow.

The Reserve Bank of Australia (RBA) cut cash rates by 25bps, and dovish commentary from September’s meeting had markets price in a close to 80% chance of an October cut. Australian bond yields reached all-time lows over the quarter, and the Australian 10-year government bond rate crossed below 1% for the first time ever. Australian credit spreads followed the global trend ending the quarter modestly higher. The AUD broadly fell versus the USD and on a TWI basis, driven by a more dovish RBA rhetoric and market expectations of more cuts to follow.

## Outlook

PIMCO believe the global economy is about to enter a low-growth “window of weakness” due to ongoing trade tensions and heightened political uncertainty.

As domestic economic data continues to undershoot targets, Australia requires further policy support. However, despite a very favorable government debt to GDP position, the Federal Government have thus far shown little signs of applying fiscal accommodation to stimulate the economy. This may mean further policy support from the RBA is the only option, despite a lack of room to move on rates. While the RBA retains a number of policy tools outside of policy rates, benefits from additional monetary accommodation are diminishing.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1817AU
AMP Flexible Super - Retirement account	AMP1787AU
AMP Flexible Super - Super account	AMP1793AU
CustomSuper	AMP1817AU
Flexible Lifetime - Allocated Pension	AMP1811AU
Flexible Lifetime Investment (Series 2)	AMP2039AU
SignatureSuper	AMP1805AU
SignatureSuper Allocated Pension	AMP1799AU

## 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



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