

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

31 December 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

Investment Option Overview

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

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

Sector Allocation	%
Government	51
Semi-Government	8
Agency	6
Investment grade corporates	11
High Yield	1
Securitised	14
Emerging Markets	6
Cash and Other	3

Regional Allocation	%
Australia/NZ	47
Japan	7
Europe – EMU	9
Europe – Non-EMU	4
United Kingdom	1
North America	28
Emerging Markets	3
Other	1

Top Holdings	%
Australian Government	26
Japanese Government	10
United States Government	9
Italian Government	6
Queensland (state of)	3
New South Wales (state of)	3
Western Australia (state of)	2
Spanish Government	2
French Government	2
North Territory (state of)	1

Portfolio Summary

- The strategy outperformed the benchmark over the quarter
- The strategy is broadly neutral overall duration, with a preference for duration in the U.S. over other developed market rates like Japan. The strategy is neutral Australian duration.

Investment Option Commentary

The strategy outperformed the benchmark over the quarter. Contributors to performance included exposure to securitized assets and an underweight to Japanese and UK duration. Currency positioning, particularly an overweight to a basket of higher carry global currencies also contributed to alpha.

Detractors of performance included Australian curve positioning, particularly an overweight to the intermediate part of the curve. An overweight to duration in peripheral Eurozone countries, particularly Italy, also detracted.

Market Commentary

Favourable developments in the U.S.-China trade discussions bolstered investor sentiment, which drove yields higher over the quarter and capped a year of strong asset returns.

Domestically, data released over the quarter indicated that while recent policy stimulus in Australia had boosted property prices, it had yet to flow through the broader economy as key indicators continued to lag. The RBA delivered a largely anticipated rate cut early in the quarter, and provided forward guidance to suggest an extended period of low rates until Australia reaches full employment.

Outlook

Recession risks, which had been elevated during the middle part of 2019, have diminished in recent months, helped by additional global monetary easing, a trade truce between the U.S. and China, better prospects for an orderly Brexit, and early signs of a rebound in the global purchasing managers' indices (PMIs). As a consequence, PIMCO are now more confident in their baseline forecast that the current "window of weakness" for global growth will give way to a moderate recovery during 2020.

As domestic economic data continues to undershoot targets, Australia requires further policy support. However, despite a very favourable 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

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