

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

31 March 2020

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	53
Aust. Fixed Interest	50	47
Cash	0	0

Sector Allocation	%
Government	61
Semi-Government	5
Agency	4
Investment grade corporates	10
High Yield	0
Securitized	9
Emerging Markets	7
Cash and Other	3

Regional Allocation	%
Australia/NZ	47
Japan	9
Europe – EMU	9
Europe – Non-EMU	3
United Kingdom	2
North America	25
Emerging Markets	3
Other	1

Top Holdings	%
Australian Government	23.69
Japanese Government	10.62
United States Government	8.95
Italian Government	4.96
Queensland (state of)	4.93
Victoria (state of)	3.36
New South Wales (state of)	2.97
Western Australia (state of)	2.73
Spanish Government	2.35
France Government	2.29

Portfolio Summary

- The strategy underperformed the benchmark over the quarter due to spread positioning.
- The COVID-19 outbreak triggered a severe sell-off across risk assets.
- PIMCO believes duration continues to provide downside protection but needs to be scaled appropriately and diversified given volatility and cross currents of fiscal supply vs relative QE programs.

Investment Option Commentary

The strategy underperformed the benchmark over the quarter. Contributors to performance included Australian and US duration positioning as yields fell, an underweight to investment grade industrials as spreads widened, and an overweight to US Agency MBS. Detractors to performance included exposure to non-Agency MBS as spreads widened, holdings of US TIPS as break-evens rates fell, and an overweight to financials as spreads widened. The Fund is moderately overweight duration overall with a preference for Australian and U.S. rates relative to other developed market. The Fund holds tactical positions in select DM currencies as well as modest long exposure to a diversified basket of EM currencies to express a cautious, but constructive view on EM. The Fund prefers exposure to senior securitized assets, while de-emphasizing generic corporate credit overall. Finally, the Fund is relatively neutral Eurozone duration, with a preference for interest rate exposure in peripheral countries relative to core and semi-core countries.

Market Commentary

The COVID-19 outbreak triggered a severe sell-off across risk assets: equities entered bear-territory in record setting pace, credit spreads widened drastically, and sovereign yields plummeted. Containment measures to help counteract the spread of the virus severely curtailed economic activity. The Reserve Bank of Australia (RBA), following global peers, undertook extraordinary actions in response. After first cutting its cash rate to its effective lower bound, it then enacted yield curve controls and quantitative easing as well as a large funding for lending package. The Australian Federal government also enacted a large-scale stimulus package to help support households and businesses.

U.S. yields led a decline in developed government rates over the quarter amid the risk sell-off. Australian yields also fell, however not as much as U.S. yields. Credit significantly repriced as the global pandemic halted economic activity, geopolitical tensions sunk oil markets, and a liquidity crunch exacerbated drawdowns, prompting more than US\$150 billion in downgrades globally. The AUD saw a meaningful fall over the quarter in response to the sell-off, relative to the USD and on a trade-weighted basis.

Outlook

Following the longest expansion on record, the global economy is currently plunging into what could become one of the deepest but also shortest recessions in modern times. However, as the underlying cause of the downturn is a truly exogenous shock – a highly contagious new coronavirus – and not any major economic imbalances, we expect the global economy to transition from intense near-term pain to gradual healing over the next six to 12 months. However, there is the risk of an uneven recovery, with significant setbacks along the way and some permanent damage that is not recouped.

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

Email: askamp@amp.com.au

Phone: 131 267



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