

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30 September 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:

www.amp.com.au/performance

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	51
Aust. Fixed Interest	50	49
Cash	0	0

Sector Allocation	%
Government	59
Semi-Government	5
Agency	3
Investment grade corporates	10
High Yield	0
Securitized	13
Emerging Markets	9
Cash and Other	1

Regional Allocation	%
Australia/NZ	49
Japan	8
Europe – EMU	9
Europe – Non-EMU	3
United Kingdom	2
North America	23
Emerging Markets	4
Other	1

Top Holdings	%
Australian Government	26.21
Japanese Government	9.09
United States Government	5.40
Queensland (state of)	4.23
Italian Government	3.57
New South Wales (state of)	3.45
French Government	3.01
Victoria (state of)	2.84
Spanish Government	2.52
Western Australia (state of)	1.94

Portfolio Summary

- Over the quarter, the Diversified Fixed Interest strategy outperformed its benchmark due to interest rate and spread positioning
- Markets began to embrace growing RBA dovishness despite Australia virus cases remaining relatively low
- The investment manager had previously anticipated a difficult investment environment subject to a range of long-term disruptors, including China's rise, populism, technology, and climate-related risks. The pandemic has amplified these disruptors and created an even more challenging landscape for investor

Investment Option Commentary

The strategy outperformed the benchmark over the quarter. Contributors to performance included Australian duration and curve positioning as yields fell, exposure to securitised assets, particularly Agency and Non Agency MBS, an overweight to financials as spreads widened, overweight positioning to inflation-linked and Australian state government bonds. Key detractors to performance included underweight positioning to non-financial investment grade corporate credit and overweight positioning to Chinese duration. The Fund is underweight duration in aggregate, preferring interest rate exposure in Australia, New Zealand and the U.S. over other developed markets. In Europe, the Fund favours peripheral countries relative to core and semi-core countries due to heightened ECB support. PIMCO prefers exposure to senior securitized assets, particularly mortgage related assets in the U.S., Australia and Europe with strong fundamentals and compelling valuations. They maintain their broad underweight to corporate credit with a preference for financials.

Market Commentary

Global risk appetites continued to gain in Q3 amid positive economic data surprises, heightened optimism around a potential vaccine, and sustained central bank support. Victoria recorded a marked increase in the number of COVID cases, compelling the Victorian government to enact a renewed regime of lockdowns and other states to strengthen border controls. Also during the quarter, the Australian Office of Financial Management (AOFM) meaningfully increased its issuance of Australian Commonwealth Government Bonds. Later in the quarter, markets began to embrace a growing dovishness by the Reserve Bank of Australia, with an expectation of a rate cut and an extension of other policy measures.

Outlook

The investment manager had previously anticipated a difficult investment environment subject to a range of long-term disruptors, including China's rise, populism, technology, and climate related risks. The pandemic has amplified these disruptors and created an even more challenging landscape for investors. Their baseline projection is for above-trend growth for a couple of years as the global economy emerges from the recession, though longer term trend growth may be weighed down by "economic scarring." The two key swing factors are (1) the state of the pandemic and (2) the degree to which fiscal policy stays active or retreats. Given the difficult near-term and longer-term economic backdrop, they expect monetary policy rates in most advanced economies to stay low or go even lower for much or all of the next three to five years.

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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