

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

31 December 2021

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/performance

Investment Option Overview

Investment Category	Diversified Fixed Interest
Suggested Investment timeframe	5 to 7 years
Relative risk rating	4/ Medium
Investment style	n/a
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	50	56
Aust. Fixed Interest	50	44
Cash	0	0

Sector Allocation	%
Government	67
Semi-Government	2
Agency	6
Investment grade corporates	14
High Yield	1
Securitised	-1
Emerging Markets	10
Cash and Other	2

Regional Allocation	%
Australia/NZ	53
Japan	10
Europe – EMU	5
Europe – Non-EMU	7
United Kingdom	1
North America	20
Emerging Markets	4
Other	2

Top Holdings	%
Australian Government	26.54
Japanese Government	12.03
United States Government	5.92
Italian Government	4.33
Queensland (state of)	3.60
Victoria (state of)	3.08
Spanish Government	3.02
Northern Territory (state of)	2.33
Western Australia (state of)	2.12
New South Wales (state of)	1.25

Portfolio Summary

Over the quarter, the Diversified Fixed Interest strategy performed broadly in line with its benchmark. Contributors to performance include an underweight position to Australia duration, holdings of non-Agency RMBS, which were a key source of yield, and an allocation to Danish Mortgages as spreads tightened

Investment Option Commentary

Developed market yield curves broadly flattened over the quarter. Front-end yields rose meaningfully across many developed markets amid elevated near-term inflation expectations and more hawkish central banks. Longer-term yields remains largely unchanged and increasing global COVID case numbers had a dampening effect on market sentiment later in the quarter. Credit spreads widened amid renewed concerns surrounding COVID variants and increasingly hawkish sentiment from central banks. However, demand continues to balance supply as investors seek high quality income producing assets. The market continues to price in a faster expectation of RBA rate hikes than what the RBA has indicated.

Market Commentary

Amid a sharp move in global short-term yields, markets began pricing expectations that recent high inflation levels would be longer lasting than previously forecast. In Australia this was first exacerbated by the upside surprise in trimmed inflation figures released over the quarter and then the RBA stepping away from its yield curve control (YCC) target, one of its monetary policy tools alongside quantitative easing and low cash rates. Also in the quarter, PIMCO saw meaningfully higher COVID case numbers, particularly in Australia, as a new variant, Omicron, coincided with the holiday season and reduced lock down requirements. Developed market yield curves broadly flattened over the quarter, as central banks adopted more hawkish stances in response to inflationary pressures. Australia's short-term rates were one of the largest movers due largely to the RBA's policy changes over the quarter. There were meaningfully higher COVID case numbers posted late in the year, particularly in Australia, as a new variant, Omicron, coincided with the holiday season and reduced lock down requirements.

Outlook

PIMCO's baseline outlook for the cyclical horizon has the global economy continuing its uneven recovery in 2022, and inflation peaking by the first quarter before moderating closer to central bank targets by the end of 2022. As a result of the magnitude and the persistence of the recent inflation overshoot, PIMCO now expect an earlier start of developed markets central banks' gradual rate hiking cycles, including a likelihood of the start of the rate hiking cycle in Australia.

Availability

Product name	APIR
SignatureSuper*	AMP1805AU
SignatureSuper Allocated Pension*	AMP1799AU
Flexible Lifetime Investment (Series 2)**	AMP2039AU

*Closed to new investors

**Closed to new and existing investors

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