

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30 June 2022

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 50% 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	49
Aust. Fixed Interest	50	51
Cash	0	0

Sector Allocation	%
Government	55
Semi-Government	2
Agency	7
Investment grade corporates	14
High Yield	1
Securitized	6
Emerging Markets	9
Cash and Other	7

Regional Allocation	%
Australia/NZ	51
Japan	6
Europe – EMU	7
Europe – Non-EMU	9
United Kingdom	0
North America	21
Emerging Markets	4
Other	2

Top Holdings	%
Australian Government	45.08
Queensland (state of)	7.25
Victoria (state of)	5.69
Forenet Kredit FMBA	5.10
Western Australia (state of)	3.80
Northern Territory (state of)	3.33
New South Wales (state of)	3.23
South Australia (state of)	2.38
Australia Capital Territory	2.07
BNG Bank NV	1.71

Portfolio Summary

During the quarter, the fund underperformed its benchmark. The fund's interest rate strategies contributed while spread strategies detracted.

Investment Option Commentary

Developed market yields broadly rose as central banks largely pursued tighter monetary policies over the quarter. Yields rose in the U.S. with the 10-year Treasury peaking near 3.5% as the Fed, in prioritizing addressing inflation, hiked interest rates by a total of 125 basis points and began tapering its balance sheet. U.K. and German rates also rose meaningfully amid elevated inflationary pressure, while Japanese rates remained largely range-bound. Agency MBS returned -4.01% during Q2, underperforming like duration Treasuries by 98 bps. Volatility in the Agency MBS market persisted during the quarter as rates continued to sell off and the Fed began its balance sheet reductions. Legacy non-Agency residential MBS spreads widened 65 bps alongside the broader credit market, while non-Agency commercial MBS returned -3.25%, underperforming like-duration Treasuries by 114 bps. U.S. investment grade credit spreads widened 35 bps, ending the quarter at 143 bps. The sector returned -6.90%, underperforming like-duration treasuries by -2.05%. Credit spreads widened due to an increasingly hawkish tone from the Fed, inflationary concerns, and weaker economic data. However, demand for high quality, income-producing assets is expected to pick up at higher yields.

Market Commentary

The fundamental backdrop showed signs of a slowdown amid weakening economic data releases, while inflation remained elevated. In response, central banks adopted more hawkish stances. The Fed delivered a 75bps hike in June (the first since 1994) and shifted expectations for future hikes forward, while the BoE and BoC also raised their policy rates. Meanwhile, performance was challenged for both “safe-haven” and risk assets as global yields rose meaningfully and risk sentiment waned. Equities broadly ended lower – with some markets dipping into bear territories – while credit and EM external spreads widened. Global yields rose sharply as central banks continued to scale back support in response to inflationary pressures. In the U.S., the 10yr yield reached an intra-quarter high of nearly 3.5% – its highest level since 2011. Credit spreads – both investment-grade and high yield – widened in Q2 as market sentiment waned. Meanwhile, mortgage credit, alongside most spread assets, also underperformed across the quality spectrum.

Outlook

Market sees an elevated risk of recession over the next two years, reflecting greater potential for geopolitical tumult, stubbornly high inflation that reduces households’ real disposable income, and central banks’ intense focus on fighting inflation first, which raises the risk of financial accidents on top of the sharp tightening of financial conditions already seen. Moreover, if and when the next recession arrives, Pimco expects the monetary and fiscal responses to be more reserved and arrive later than in the last several recessions when inflation was not a concern and when government debt levels and central bank balance sheets were less bloated.

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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