

# PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30-June-2018

## Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1787AU
AMP Flexible Super – Choice (Super)	AMP1793AU
CustomSuper	AMP1817AU
Flexible Lifetime – Allocated Pension	AMP1811AU
Flexible Lifetime – Investments (Series 1)	
Flexible Lifetime – Investments (Series 2)	
Flexible Lifetime – Super	AMP1817AU
SignatureSuper	AMP1805AU
SignatureSuper – Allocated Pension	AMP1799AU

## Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit [www.amp.com.au](http://www.amp.com.au). You can also view the last investment performance specific to you by visiting your My Portfolio account.

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## Overview

**Aim & Strategy:** To achieve maximum total return by investing in Australian and international bonds. The portfolio

applies a wide range of diverse strategies, concentrating on two sources of return: sector allocation and rotation, and “bottom up” credit analysis for securities. Sector allocation is driven by the manager’s short-term and long-term economic outlook based on fundamentals such as productivity and interest rates. “Bottom up” credit analysis assesses the quality of securities based on cash flows, capital structure and qualitative factors of the issuer, and industry dynamics. Other portfolio strategies include duration, relative value analysis and security selection. The portfolio invests in indirect and direct government, corporate, mortgage and other fixed interest securities. 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% UBS Australian Composite Bond Index.

**Investment category:** Diversified Fixed Interest (Australian and International Fixed Interest)

**Suggested Investment Timeframe:** 5 – 7 years

**Relative Risk Rating:** Medium

**Investment Style:** Actively managed, defensive profile with focus on capital protection and income generation

Asset Allocation	Actual (%)	Range (%)
International Fixed Interest	51	0-100
Australian Fixed Interest	49	0-100

## Holdings

Industry Exposure	%
Government	43
Semi-Government	11
Agency	5
Investment grade corporates	13
High Yield	1
Securitised	17
Emerging Markets	2
Cash and Other	8

Regional Exposure	%
Australia/NZ	49
Japan	-1
Europe – EMU	16
Europe – Non-EMU	4
United Kingdom	2
North America	31
Emerging Markets	1
Cash and Other	-1

Top Ten Securities	%
Australian Government	29.67
United States Government	24.01
FNMA Pass Thru Pools	8.97
German Government	7.15
Japanese Government	5.85
Queensland (state of)	3.89
United Kingdom Government	3.85
Western Australia (state of)	2.87
New South Wales (state of)	2.22
Kommunalbanken A/S	1.37

## Market Commentary

Australian bonds finish the quarter largely unchanged, while spreads widen on global sentiment.

Global risk sentiment waned toward the end of the quarter amid geopolitical turmoil and escalating trade tensions. In the U.S., the Fed hiked its policy rate and signalled two more increases in 2018, while softer economic data releases in other developed regions prompted more cautious rhetoric from several central banks.

Locally, Australia's Royal Commission into the Financial Services sector caused short-term weakness in finance stocks and issues. Also over the quarter, Australia's

Q1 GDP growth came in marginally above market expectations. Australian yields finished the quarter largely unchanged, while local spreads followed global spreads widener.

## Outlook

Over the secular horizon, the Fund Manager expects a very different macro landscape to emerge, reflecting shifts in the monetary-fiscal policy mix, rising protectionism and economic nationalism. The cyclical outlook, however, remains more favourable and the Fund Manager expects world GDP growth to remain above-trend at 3.0%–3.5% in 2018 as fiscal policy helps sustain solid growth.

2018 has so far proven to be the year of Australia's "Fragile Inflection Point". While a number of secular headwinds are subsiding, the outlook remains fragile due to fragile household, consumption and wage data. As such, the Fund Manager believes that the burden on the RBA for a rate move in either direction is high for the intermediate period.

## Interest rate strategies

The Fund was underweight overall duration, with a preference for US and European rates versus Japanese, UK and Australian rates. It retained curve steepeners across much of the DM space as the Fund Manger expects term premium and inflation expectations to steepen the curve.

## Spread sector strategies

The Fund will continue to avoid generic corporate credit risk with a preference for securitized assets like non-Agency mortgages and European and Australian securitized debt due to better valuations, strong fundamentals and lower correlation to equity markets.

## Currency strategies

Long a diversified basket of high carry EM currencies, rotating based on valuation and fundamentals versus the euro. Long Chinese yuan versus a basket of low carry, high beta Asian currencies.

## Eurozone country positioning

On the back of increased volatility in Europe, the Fund is underweight peripheral and semi-core sovereign risk while navigating political risk and ECB QE tapering. The Fund Manager believes UK yields are likely to rise on a softer-than-expected Brexit.

## What you need to know

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