

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30 September 2018

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

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed	50	51
Aust. Fixed Interest	50	49
Cash	0	0

Regional Allocation	%
Australia/NZ	49
Japan	-2
Europe – EMU	14
Europe – Non-EMU	4
United Kingdom	2
North America	35
Emerging Markets	0
Other	-1

Sector Allocation	%
Government	41
Semi-Government	13
Agency	5
Investment grade corporates	14
High Yield	1
Securitised	19
Emerging Markets	2
Cash and Other	6

Top Holdings	%
Australian Government	30.35
United States Government	21.44
FNMA Pass Thru Pools	11.29
Japanese Government	5.67
German Government	5.19
Queensland (state of)	4.20
Western Australia (state of)	3.79
United Kingdom Government	3.63
New South Wales (state of)	2.12
Spanish Government	1.68

Portfolio Summary

- Trade tensions and geopolitical risk continued to drive market sentiment
- PIMCO expects world GDP growth to slow somewhat but remain above-trend at 2.75%–3.25% in 2019.

Investment Option Commentary

The fund outperformed its benchmark as interest rate and spread strategies contributed to performance while currency strategies detracted on the quarter. Underweight to Japanese duration, select holdings of non-agency MBS, long exposure to the Mexican peso all contributed to performance. Spread positioning, including overweight to financials, securitised debt and industrials contributed to performance.

Market commentary

Despite lingering tensions between the U.S. and China and challenges in emerging market assets, a strong fundamental backdrop persisted and contributed to outperformance of U.S. risk assets relative to those abroad: U.S. equities rallied, corporate credit spreads tightened, and the dollar strengthened. Meanwhile, central banks remained on course for diminished monetary support, which pushed DM yields higher. The Fed and BoE both hiked, the ECB confirmed plans to cease asset purchases by year-end, and the BoJ adjusted its yield curve control policy.

Domestically, federal politics took centre stage as former Federal Treasurer Scott Morrison replaced Malcolm Turnbull for Prime Minister. Outside of politics, while positive Q2 GDP and labour data had upward pressure on yields, a weaker than expected Q2 CPI print caused break-evens to narrow and helped Australian yields outperform global counterparts. Despite continued moves away from stimulatory monetary policies across many global central banks, the RBA maintained their stance of patience towards rate normalisation. This did not stop a number of local banks increasing mortgage rates out of cycle, citing higher funding costs.

Outlook

PIMCO expects world GDP growth to slow somewhat but remain above-trend at 2.75%–3.25% in 2019. With tighter global financial conditions, increased political and economic uncertainties, and U.S. fiscal stimulus starting to fade in 2019, PIMCO think the economic divergence of 2018 – the U.S. accelerating and other regions slowing – will give way to a more synchronized deceleration, with the U.S., the eurozone and China all seeing lower growth than this year. PIMCO expect inflation globally to remain essentially unchanged from 2018 at 2.0%–2.5%.

Patient optimism has been the key motif of the RBA so far in 2018. PIMCO believe this will continue and normalisation of policy will be gradual and slow. Australia is making progress towards full employment, and inflation continues to move closer to target, which increases the RBA's confidence in hiking policy rates. However, PIMCO believe progress is expected to be slow, as factors such as political instability and financial conditions tightening could undermine the path towards rate normalisation.

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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