

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

31 December 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 Interest | | 48 |
| Aust. Fixed Interest | | 52 |
| Cash | | 0 |

| Regional Allocation | % |
|---------------------|----|
| Australia/NZ | 52 |
| Japan | -3 |
| Europe – EMU | 15 |
| Europe – Non-EMU | 4 |
| United Kingdom | -1 |
| North America | 34 |
| Emerging Markets | 0 |
| Other | -1 |

| Sector Allocation | % |
|-----------------------------|----|
| Government | 38 |
| Semi-Government | 15 |
| Agency | 4 |
| Investment grade corporates | 15 |
| High Yield | 1 |
| Securitised | 22 |
| Emerging Markets | 2 |
| Cash and Other | 4 |

| Top Holdings | % |
|------------------------------|-------|
| Australian Government | 32.79 |
| United States Government | 21.70 |
| FNMA Pass Thru Pools | 13.26 |
| Queensland (state of) | 4.72 |
| German Government | 4.35 |
| Japanese Government | 4.35 |
| Western Australia (state of) | 3.91 |
| New South Wales (state of) | 2.57 |
| Kommunalbanken A/S | 1.31 |
| South Australia (state of) | 0.86 |

Portfolio Summary

Over the quarter, the strategy underperformed its benchmark largely due to interest rate and spread strategies which detracted from performance.

Investment Option Commentary

- Contributors:
 - Overweight to European core duration
 - Duration positioning in the U.S.
- Detractors:
 - Underweight to Japanese and Australian duration
 - Holdings of inflation-linked securities
 - Select holdings of non-investment grade corporate credit
 - Positions in non-Agency MBS

Market commentary

Concerns about slowing growth, along with a slew of other sources of uncertainty, contributed to a sell-off in global equity markets while credit spreads widened and developed market yields fell which also affected Australian market prices. Meanwhile, central banks remained on course for diminished monetary support as the fundamental backdrop remained solid. The Fed hiked for the 4th time in Q4, though lowered its expectations for rate increases in 2019, and the ECB reiterated its intention to end its QE program.

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 thinks the economic divergence of 2018 – the U.S. accelerating and other regions slowing – will give way to a more synchronized deceleration.

In Australia, elevated bank funding costs, a soft housing market and the uncertain political environment continue to be domestic headwinds. Slowing growth and tighter global financial conditions may also weigh on Australia's outlook. These factors will likely see the RBA continue to exercise patience in 2019.

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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