

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30 June 2020

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
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	50	52
Aust. Fixed Interest	50	48
Cash	0	0

Sector Allocation	%
Government	61
Semi-Government	4
Agency	3
Investment grade corporates	10
High Yield	0
Securitized	10
Emerging Markets	9
Cash and Other	2

Regional Allocation	%
Australia/NZ	48
Japan	8
Europe – EMU	11
Europe – Non-EMU	2
United Kingdom	3
North America	25
Emerging Markets	3
Other	1

Top Holdings	%
Australian Government	23.21
Japanese Government	9.49
United States Government	7.65
Italian Government	4.50
Queensland (state of)	4.43
New South Wales (state of)	3.73
Victoria (state of)	2.89
Western Australia (state of)	2.55
France Government	2.35
Spain Government	2.09

Portfolio Summary

- The strategy outperformed the benchmark over the quarter due to interest rate and spread positioning.
- Global risk assets rallied sharply alongside improving investor sentiment and gradual re-opening of economies
- PIMCO's baseline forecast is for a bumpy and uneven recovery with pre-crisis level of economic activity unlikely to be reached before 2022 in most Western economies

Investment Option Commentary

Over the quarter, the strategy outperformed its benchmark due to interest rate and spread positioning. Key contributions over the quarter include, global duration strategies, particularly overweight in U.S. duration; an overweight to senior and subordinated financials; positions in non-agency mortgage backed securities and other securitized credit; and positions in emerging markets external debt. Key detractor was positions in agency mortgage backed securities. The strategy is neutral to slight underweight duration overall with a preference for Australian and U.S. rates relative to other developed markets. In terms of tactical currency positions, the strategy has modest exposure to select developed market currencies and a diversified basket of emerging market currencies primarily against the U.S. dollar. PIMCO prefer exposure to senior securitised assets, while de-emphasizing generic corporate credit overall. In addition, the strategy is relatively neutral to Eurozone duration, with a preference for interest rate exposure in peripheral countries relative to core and semi-core countries.

Market Commentary

Global risk assets rallied sharply alongside improving investor sentiment and gradual re-opening of economies, with unprecedented policy stimulus and early signs of progress in experimental COVID-19 vaccines driving gains. Oil markets stabilized from extreme volatility earlier in the quarter as OPEC+ production cuts took effect.

Fundamentals worsened as the global economy fell into recession, although economic data appears to be showing signs of bottoming. Australian labour market statistics provided insight into shutdown-related weakness, with the unemployment rate rising to 6.2% in May and figures showing close to 600,000 in lost jobs.

Outlook

The global economy has started to recover from the sharpest (and likely the shortest) recession in modern times. PIMCO's baseline forecast is for a bumpy and uneven recovery with pre-crisis level of economic activity unlikely to be reached before 2022 in most Western economies. And while a near-term mechanical bounce in economic activity in response to the lifting or easing of lockdown measures looks likely, we expect the subsequent climb up to be long and arduous. The main source of uncertainty lies outside economic or policy spheres: a rapidly evolving COVID-19 pandemic that could easily push the economy into better or worse trajectories than their baseline over the cyclical six- to 12-month horizon.

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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