

# PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

31 December 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/performance](http://amp.com.au/performance)

## Investment Option Overview

<b>Investment Category</b>	Diversified Fixed Interest
<b>Suggested Investment timeframe</b>	5 years
<b>Relative risk rating</b>	4 / Medium
<b>Investment style</b>	n/a
<b>Manager style</b>	Single Manager

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

Sector Allocation	%
Government	62
Semi-Government	4
Agency	3
Investment grade corporates	10
High Yield	0
Securitised	11
Emerging Markets	9
Cash and Other	2

Regional Allocation	%
Australia/NZ	51
Japan	8
Europe – EMU	9
Europe – Non-EMU	3
United Kingdom	3
North America	21
Emerging Markets	4
Other	1

Top Holdings	%
Australian Government	32.10
Japanese Government	9.47
United States Government	5.97
Italian Government	4.10
French Government	3.48
Queensland (state of)	3.40
Victoria (state of)	2.42
Spanish Government	2.08
Northern Territory (state of)	1.79
Western Australia (state of)	1.71

## Portfolio Summary

- Over the quarter, the Diversified Fixed Interest strategy outperformed its benchmark due to interest rate and spread positioning
- Global demand for Australian Government Bonds continues to be strong off the back of a relatively high credit quality and higher yields relative to other developed yields even on a hedged basis
- Credit spreads tightened across sectors amid market optimism surrounding vaccine developments, election outcomes, and improving economic data as well as strong investment grade technicals as supply slowed into year end.

## Investment Option Commentary

Developed market yield moves were mixed over the quarter. In Australia and the U.S., longer-dated yields rose meaningfully given increased potential for additional fiscal stimulus and encouraging developments regarding COVID-19 vaccines. The front-end of the Australian curve rallied on the back of further accommodation by the RBA. The strategy outperformed the benchmark over the quarter. Contributors to performance include positions in securitised assets, such as Australian RMBS, U.S. Agency and non-Agency MBS, an overweight to senior and subordinated financials and Interest rate positioning including European duration and EM external debt positioning. Conversely, Australian duration and curve positioning detracted from performance over the quarter.

## Market Commentary

Growth momentum continued to start the quarter, though a surge in virus cases and renewed lockdown measures weighed on the pace of recovery. Still, risk assets posted strong performance for the quarter, supported by vaccine approvals, more policy stimulus, and clarity on the U.S. election outcome: global equities gained and credit spreads tightened, while sovereign yield moves were mixed. Meanwhile, global central banks and fiscal policymakers broadly reaffirmed their commitment to supportive policy stances. Domestically, the Reserve Bank of Australia announced a raft of policy changes including a cut to the cash rate and the 3-year yield curve target, as well as expanded QE and Term Funding Facility programmes, causing the front-end of the Australian yield curve to fall.

## Outlook

Following an outsized contraction of economic activity in 2020, the Investment Manager expects global output and demand to rebound strongly in 2021, especially in the second half of the year, driven by the broadening rollout of vaccines and continued fiscal and monetary policy support. Meanwhile, the Investment Manager anticipates inflation will creep up only moderately and generally remain below central banks' targets in all major economies. The key risks to PIMCO's economic outlook include (1) fiscal fatigue or gridlock in some advanced economies, (2) the likely transition in China from credit easing to tightening in the course of this year, and (3) economic scarring that could impede the return of pre-pandemic activity levels and make the recovery bumpy and uneven across countries and sectors.

## Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1793AU
AMP Flexible Super - Retirement	AMP1787AU
CustomSuper	AMP1817AU
Flexible Lifetime - Super	AMP1817AU
Flexible Lifetime - Allocated Pension	AMP1811AU
Flexible Lifetime - Investments (Series 2)	AMP2039AU**
SignatureSuper	AMP1805AU
SignatureSuper - Allocated Pension	AMP1799AU

\*\*Closed to new and existing investors

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