

PIMCO Diversified Fixed Interest

Quarterly Investment Option Update

30 June 2019

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	56	53
Aust. Fixed Interest	44	47
Cash	0	0

Regional Allocation	%
Australia/NZ	47
Japan	6
Europe – EMU	11
Europe – Non-EMU	2
United Kingdom	4
North America	26
Emerging Markets	2
Other	1

Sector Allocation	%
Government	57
Semi-Government	8
Agency	3
Investment grade corporates	11
High Yield	1
Securitised	10
Emerging Markets	6
Cash and Other	4

Top Holdings	%
Australian Government	29.77
United States Government	20.92
Japanese Government	10.15
FNMA Pass Thru Pools	7.89
Queensland (state of)	3.98
Western Australia (state of)	3.77
New South Wales (state of)	2.20
South Australia (state of)	1.12
Kommunalbanken A/S	1.08
Victoria (state of)	1.01

Portfolio Summary

- The Fund outperformed the benchmark over 2Q19, largely due to spread, currency and duration positioning
- Global central banks signaled a willingness to increase accommodation if needed

Investment Option Commentary

Over the quarter, the Diversified Fixed Interest strategy out-performed its benchmark largely due to spread, currency and duration positioning.

Market commentary

A backdrop of slowing global growth and softening sentiment measures highlighted growing uncertainties about the economic outlook, with intra-quarter trade tensions exacerbating concerns. Global central banks signaled a willingness to increase accommodation if needed. The RBA followed suit by cutting cash rates by 25bps and providing strong indications for further rate cuts after both employment and inflation data disappointed to the downside over the quarter. "Safe-haven" and risk assets alike rallied as financial conditions eased in anticipation of easier global monetary policy – developed equities broadly rallied, credit spreads broadly tightened, and sovereign yields fell.

The RBA indicated their new expectation for NAIRU (Non-accelerating Inflationary Rate Of Unemployment) in Australia to be around 4.5%, which caused markets to price in a greater certainty of further rate cuts as the unemployment rate remains meaningfully higher than this rate.

Along with the RBA rate cut, markets continued to reduce their expectations for future monetary policy rates over the quarter. Outside of employment, inflation expectations continued fall short of the RBA's inflation target band.

Outlook

Our baseline outlook is for lackluster global growth, low inflation, and New Neutral interest rates over the next 3-5 years. Risks to the outlook are significant, as China, evolving populist movements, aging societies, technological change, financial market vulnerability, and climate instability all have potential to disrupt economies and markets.

PIMCO have seen Australian policy settings ease in addition to monetary policy easing. On the fiscal side, a planned tax cut package could act to stimulate the economy. On macro-prudential policy, a recent relaxation of requirements for banks to assess a borrower's ability to repay may lead to an increase in household lending from recent lows.

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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