ANZ International Fixed Income Portfolio

Investment strategy and approach

The ANZ International Fixed Income Portfolio ('the Portfolio') focuses on investing in international fixed income using specific strategies that cover passive international sovereign bonds (managed by Vanguard), passive international credit (managed by Vanguard), active broad international fixed income (managed by PIMCO) bonds and cash (managed by Western Asset Management) in order to achieve its investment objectives of outperforming its benchmark over the medium term of three years.

ANZ dynamically tilts between the strategies and asset classes to optimise returns, preserve and to grow capital based on the view of ANZ's Regional Investment Council (RIC).

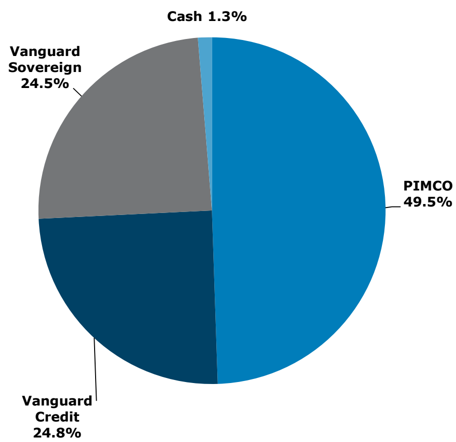
Portfolio performance

	1mth	3 mths	1 yr	3 yrs (p.a.)	Since inception (p.a.)[2]
Total return	-0.03%	-0.37%	8.00%	4.49%	4.68%
Benchmark return[1]	-0.28%	-0.76%	7.20%	4.15%	4.27%
Total return relative to benchmark[1]	0.25%	0.39%	0.81%	0.34%	0.41%

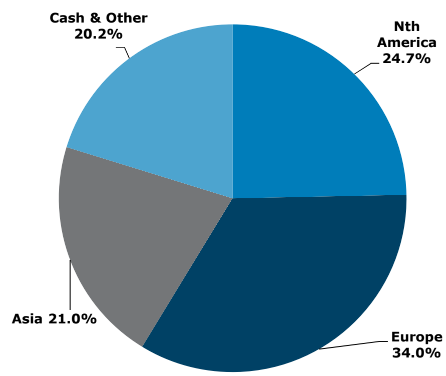
1. The benchmark is 100% Barclays Capital Global Aggregate Hedged to AUD
2. Inception date is 13 October 2015

Figures may not add up due to rounding.

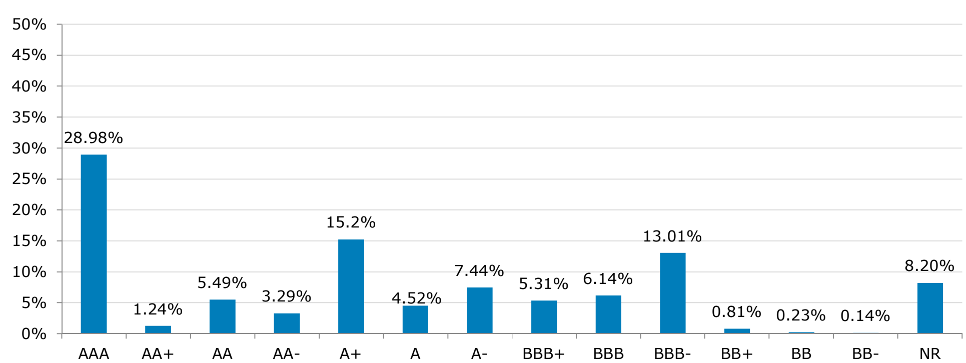
Allocation between strategies



Regional investment mix



Credit rating investment mix



The above performance is based upon the Model Portfolio. Individual Portfolios may differ from this due to factors that include timing of implementation, cash flows and corporate actions.

ANZ International Fixed Income Portfolio

Market commentary

Financial markets ended the year on a positive note, with global macroeconomic events that have plagued markets this year seemingly coming to a resolution. The US and China announced they had reached a “phase one” trade deal ending a series of retaliatory exchanges between the countries and the USMCA trade agreement was passed in the US House of Representatives. In the UK, Boris Johnson’s Conservative Party won a sizeable electoral majority, setting the UK on course to leave the EU at the end of January 2020, calming market fears of further uncertainty. Buoyed by the macroeconomic backdrop and the strong fundamentals, spread products, in particular high-yield corporates and bank loans, posted strong positive returns. The latter were helped by a pause in monetary policy easing from the Federal Reserve (Fed). Both local and hard currency EM bond yields fell during December as the global risk appetite returned following a period of uncertainty. Easing among EM central banks continued as Turkey, Brazil, Mexico and Russia, among others, cut rates; again this was a supportive move for bond markets. New issuance and M&A activity declined into year-end.

Portfolio commentary

The ANZ International Fixed Income portfolio was flat during the month, however it outperformed the Barclays Global Aggregate (100% Hedged) benchmark by 0.25%.

The actively managed PIMCO strategy drove the outperformance, providing a return of 0.24%, equating to approximately 0.50% of alpha over its benchmark. Both passively managed Vanguard strategies performed in line with their benchmarks. The Vanguard International Credit Securities (hedged) exposure had negative absolute performance of approximately -0.05%. The Vanguard International Fixed Interest Fund (hedged) fell -0.56%.

Within the PIMCO strategy an overweight to securitised assets (in particular U.S. agency MBS) added carry and contributed driven by a favourable prepayment report, a steeper yield curve, and declining seasonal issuance. Exposure to EM sovereigns also contributed due to spread tightening as risk sentiment generally improved as a “Phase 1” trade deal was reached and the U.S. House passed the USMCA trade deal. Off-benchmark exposure to U.S. inflation-linked bonds added alpha as break-evens widened, consistent with moves in equities, crude oil and nominal yields.

PIMCO continues to hold an overweight to US duration, focused on the intermediate portion of the curve, based on their belief that US rates offer an attractive pick-up versus other DM rates and are likely to remain range bound. The fund continues to hold an allocation in Treasury Inflation-Protected Securities (TIPS) as PIMCO believe TIPS reflect a defensive posture that could prove beneficial should inflation surprises contribute to increases in rates.

PIMCO holds an underweight total exposure to Eurozone duration given relatively unattractive yields and negative carry in some parts of the curve. They also hold an underweight to France as they feel French government bonds offer a poor risk/reward pay-off.

The underweight to duration in the Japanese yield curve has been maintained as PIMCO view the position as a hedge against global rates shifting higher. Alongside this the fund continues to hold an overweight to duration in Denmark as an attractive alternative to European rates.

PIMCO maintains a cautiously constructive outlook on EM, expressing their EM views via FX given the more attractive liquidity profile.

Within securitised assets, Non-Agency MBS remains PIMCO’s preferred spread sector. PIMCO views non-Agency MBS favourably due to their attractive yields, risk profile and their outlook for price appreciation in the US housing market.

Launch date

13 October 2015

Distributions

The Fund generally distributes on a quarterly basis. The amount (if any) distributed to each unitholder will be based on the number of units held and the distribution per unit at the end of each distribution period.

Fund currency

Australian dollar

Fees

Please refer to the relevant PDS and the Investment Menu/Managed Account Profile for more information.