



PIMCO Target Return Fund



Quarterly Investment Report | 1Q22

Institutional Class

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Executive summary

Portfolio Performance

Over the quarter, the Target Return Fund posted a positive absolute return, mainly due to quantitative and global macro strategies.

CONTRIBUTORS

- Alternative risk premia and trend-following strategies
- Global macro strategies

DETRACTORS

- Australian rate strategies

Performance periods ended 31 Mar '22	3 mos.	FYTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	SI
Net of fees (%)	0.82	1.02	0.92	1.75	1.93	3.23	4.84
Benchmark*	0.01	0.03	0.04	0.46	1.02	1.83	2.90

Past performance is not a reliable indicator of future results.

Returns for periods longer than 1 year are annualised.

Gross of Fees - Fund performance assumes the reinvestment of all distributions but does not take into account personal income tax.

Net of Fees - Fund performance is quoted net of fees and expenses and assumes the reinvestment of all distributions but does not take into account personal income tax.

Portfolio strategy

- The fund maintains a structural allocation to global macroeconomic, alternative risk premia and trend-following strategies.
- The fund will also be looking to take advantage of idiosyncratic global credit opportunities.
- The fund also maintains an exposure to an Australian anchor strategy, made up predominantly of Australian rate and credit positions which aim to provide monthly incremental returns.

Class:	INST
Inception date:	06 Sep '07
Fund assets (in millions):	AUD95.08

Summary information	31 Mar '22
Effective duration (yrs)	-0.98
Benchmark duration (yrs)	0.13
Effective maturity (yrs)	7.48
Average coupon	2.24%

Regional exposure (currency in Dur yrs)	Portfolio (yrs)	Benchmark (yrs)
United States	-0.49	0.00
Japan	-0.15	0.00
Eurozone	-0.46	0.00
United Kingdom	-0.63	0.00
Europe non-EMU	-0.45	0.00
Australia	0.44	0.13
Canada	-0.02	0.00
New Zealand	0.17	0.00
Other Industrialized Countries	0.37	0.00
Emerging markets	0.24	0.00
Total	-0.98	0.13

Quality Exposure (MV %)	31 Mar '22
AAA	54.77
AA	13.61
A	15.82
BBB	12.98
Sub Investment Grade	2.82
Average Credit Quality	AA-

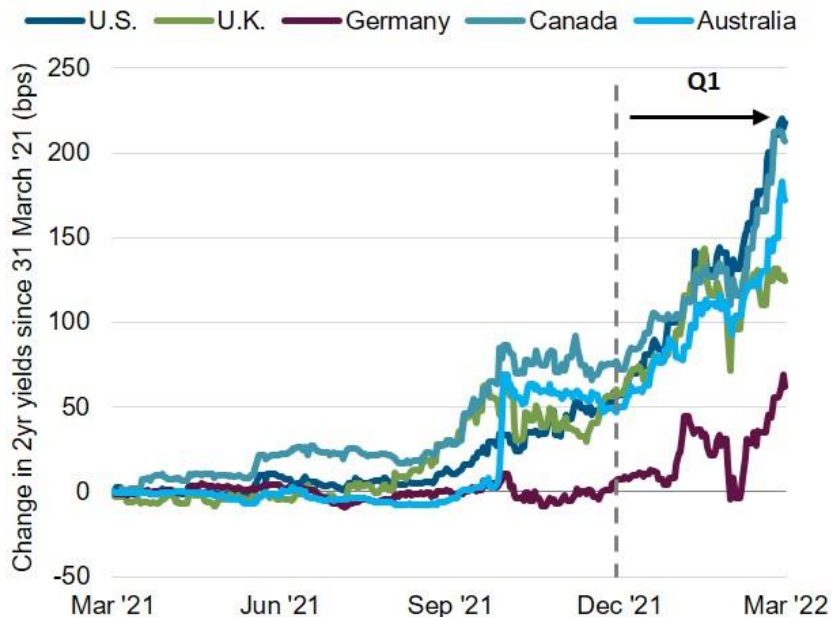
*Bloomberg AusBond Bank Bills Index

Quarter in Review

A challenging environment for fixed income as yields rose

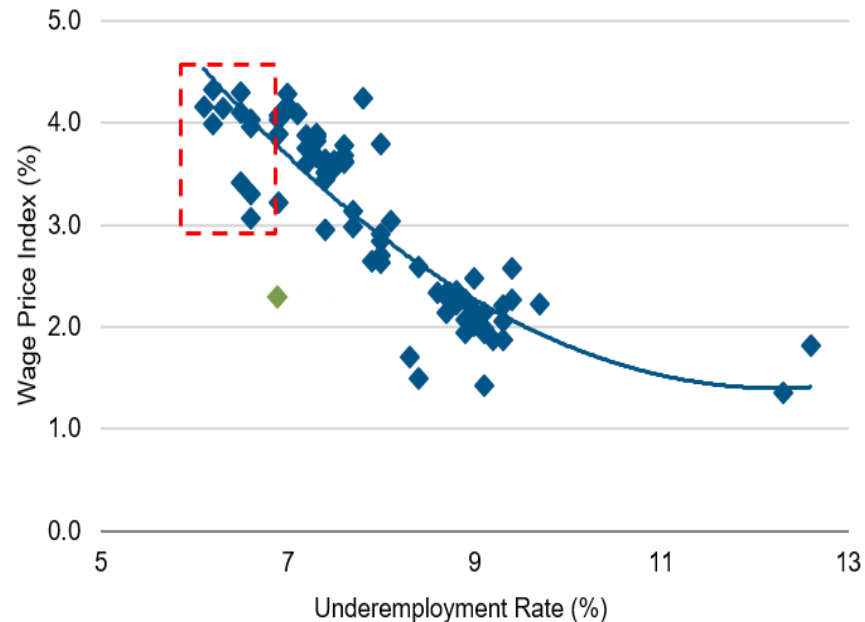
Russia's invasion of Ukraine – and the subsequent imposition of financial sanctions – added stress to already fragile global supply chains and amplified inflationary concerns. In response, central banks adopted more hawkish stances. Performance was challenged for both “safe-haven” and risk assets as global yields rose sharply over the quarter and risk sentiment waned.

While the Reserve Bank of Australia (RBA) kept rates steady over the quarter, the market priced in an accelerated path for RBA cash rate normalisation. The moves were exacerbated by strong employment figures confirmed over the quarter including a 4.0% unemployment rate and strong participation and total labour workers figures.



Global yields rose sharply as central banks continued to scale back support in response to inflationary pressures. In the U.S., the yield curve inverted along several key tenors – including the closely monitored 2s-10s spread.

Wages vs Underemployment



Wage inflation in Australia, which has long been a focus for the RBA, remains low despite the level of labour market tightness we have seen in most recent print.

Market Summary

Rising yields constituted a notable headwind to most asset classes

Over the quarter, the Target Return Fund posted a positive absolute return, mainly due to quantitative and global macro strategies.

Developed market debt

Developed market yields broadly rose amid geopolitical uncertainty following the Russian invasion of Ukraine and rising inflationary pressures. In the U.S., yields rose and the curve inverted along several key tenors as the Fed hiked interest rates and signaled potentially larger hikes from here. Australian yields followed global moves, with labour figures contributing to the move.

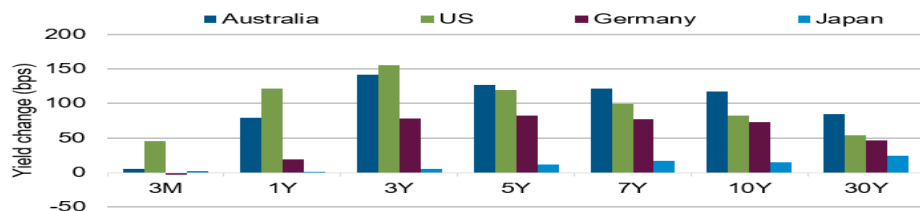
Credit

Australian credit spreads widened in Q1 alongside the broad “risk-off” sentiment across global markets. Mortgage credit, alongside most spread assets, also underperformed across the quality spectrum.

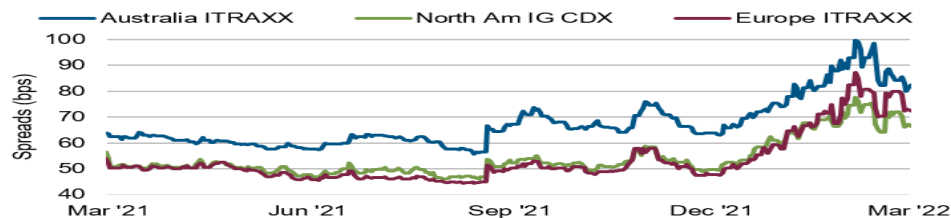
Australia Cash Rates

Q1 saw a significant increase in the expectation of RBA rate hikes off the back of strong employment figures over the quarter and markets pricing in a more hawkish global central banking sentiment.

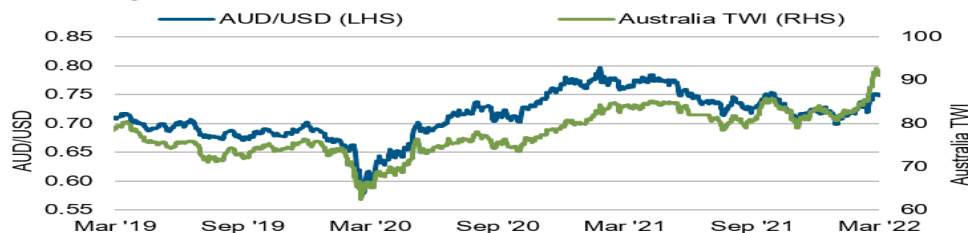
Yield Curve moves – Q4 2021



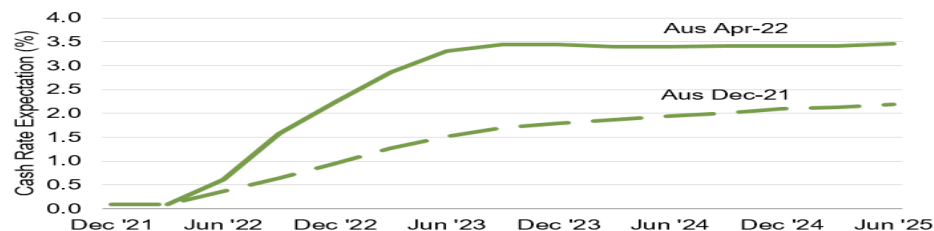
Credit Spreads



Currency



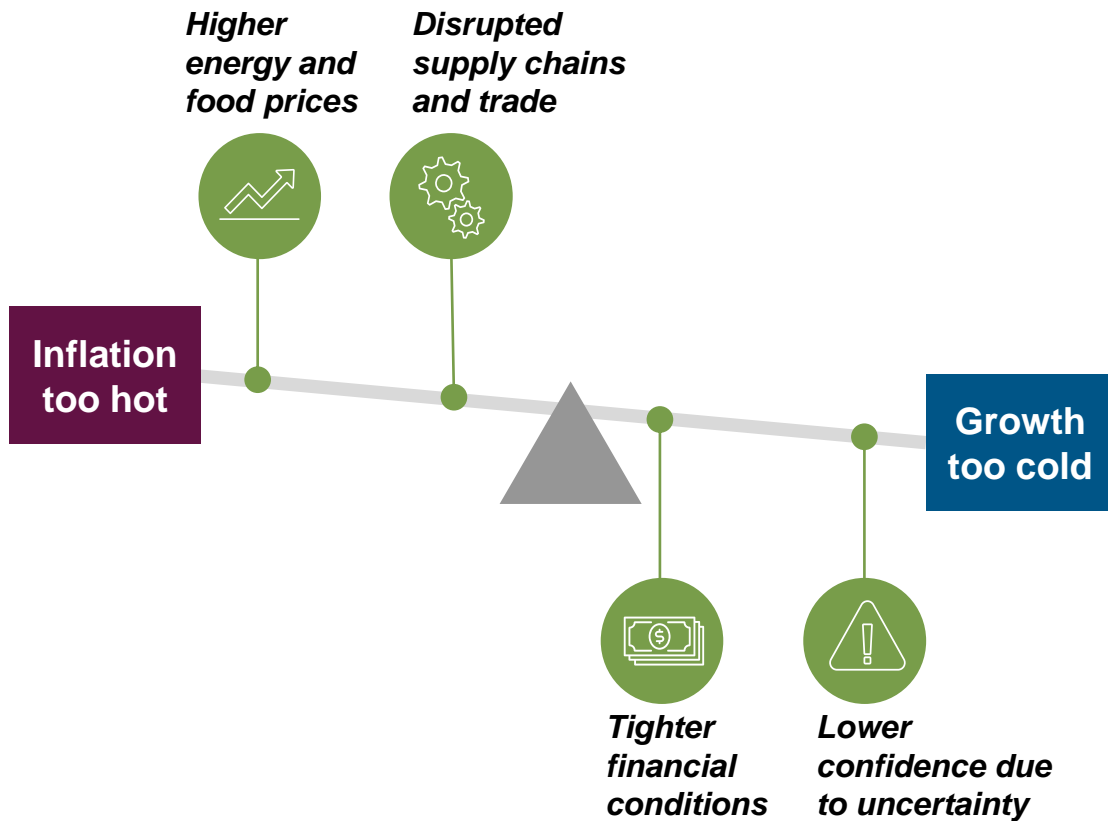
Cash Rate Expectations



As of 31 March 2022, bottom RHS chart as of 8 April 2022. SOURCE: PIMCO, Bloomberg

Cyclical Outlook: Anti-goldilocks

A global economy where inflation becomes “too hot” and growth “too cold”



Key Highlights

- Uncertainty clouds the outlook
- Expect greater dispersion
- Central Banks focused on fighting inflation over supporting growth
- PIMCO strategies favor portfolio flexibility and liquidity

Active management may help investors navigate an economy where inflation becomes “too hot” and growth “too cold”

Portfolio Outlook

Strategic outlook

Significant uncertainty clouds the outlook as the global economy confronts a shock that is negative for growth and will likely spur further inflation. In our base case, growth remains above-trend in developed market economies – supported by the post-pandemic economic reopening and pent-up savings bolstering demand. We expect that inflation will peak in the next few months before moderating gradually. However, there are obvious and significant risks to this outlook, especially if the war or the sanctions escalate further.

With the RBA cash rate tightening priced in and a reset higher in bond yields, we believe the prospect for duration to provide defensive characteristics is more attractive.

Key strategies

Global macro opportunities

PIMCO's key directional interest rate plays across the globe as derived by our top-down investment process.

Alternative risk premia and Trend-following strategies

The fund also aims to systematically isolate exposures to alternative risk premia including value, carry, momentum, volatility across asset classes.

Global credit opportunities

The Fund will look to take advantage of idiosyncratic global credit opportunities.

Anchor portfolio: Australian credit and rate strategies

Made of predominantly high-quality domestic fixed interest securities that aim to form the 'bedrock' of the absolute return generation in the fund. It also aims to take advantage of PIMCO's directional views on domestic rates.

Sector exposure

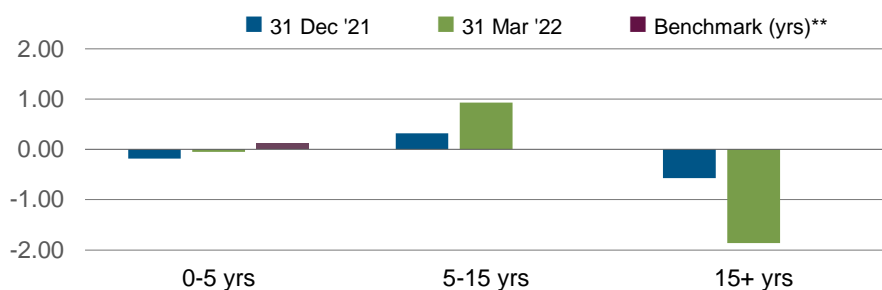
	Portfolio				Benchmark	
	% of Market value		Duration in years		% of Market value	Duration in years
	31 Dec '21	31 Mar '22	31 Dec '21	31 Mar '22	31 Mar '22	31 Mar '22
Government	-148.67	-195.00	-0.66	-0.82	0.00	0.00
Semi-Gov	7.22	8.07	0.27	0.27	0.00	0.00
Agency	8.06	6.86	0.37	0.39	0.00	0.00
IG Corporates	5.77	9.85	0.25	0.41	100.00	0.13
Financial	5.77	8.73	0.23	0.37	0.00	0.00
Industrial	0.90	1.29	0.04	0.03	0.00	0.00
Utilities	0.00	0.00	0.00	0.00	0.00	0.00
Other Investment Grade Credit	-0.91	-0.17	-0.01	0.00	100.00	0.13
High Yield	1.27	0.54	-0.01	-0.02	0.00	0.00
Financial	0.56	0.41	0.02	0.02	0.00	0.00
Industrial	-0.35	-0.76	-0.03	-0.04	0.00	0.00
Utilities	0.01	0.01	0.00	0.00	0.00	0.00
Other High Yield Credit	1.07	0.89	0.00	0.00	0.00	0.00
Securitized*	-6.49	-5.59	-0.96	-0.98	0.00	0.00
Agency Mortgages	-11.22	-10.37	-1.08	-1.13	0.00	0.00
Non-Agency Mortgages	3.99	4.04	0.07	0.10	0.00	0.00
Asset-Backed Securities	0.01	0.00	0.00	0.00	0.00	0.00
Covered Bonds	0.74	0.73	0.05	0.05	0.00	0.00
Emerging Markets	-3.09	-15.98	0.10	-0.07	0.00	0.00
Sovereigns	-7.31	-18.00	0.03	-0.11	0.00	0.00
Quasi-Sovereigns	1.00	0.51	0.02	0.01	0.00	0.00
Corporates	3.22	1.51	0.05	0.02	0.00	0.00
Cash Equiv & Other	235.92	291.25	0.21	-0.16	0.00	0.00
Total	100	100	-0.44	-0.98	100	0.13

*Securitized includes Agency MBS, non-Agency MBS, CMBS, ABS, CDO, CLO, and Pooled Funds.

Benchmark: Bloomberg AusBond Bank Bills Index

Portfolio characteristics

Key rate duration exposure



	Portfolio (yrs)		Benchmark (yrs)**
	31 Dec '21	31 Mar '22	31 Mar '22
0-5 yrs	-0.18	-0.05	0.12
5-15 yrs	0.32	0.93	0.00
15+ yrs	-0.57	-1.86	0.00
Total	-0.42	-0.98	0.12

Interest rate exposure

	Portfolio (yrs)		Benchmark (yrs)**
	31 Dec '21	31 Mar '22	31 Mar '22
Effective duration	-0.44	-0.98	0.12
Spread duration			
Mortgage spread duration	-0.63	-0.80	0.00
Corporate spread duration	0.05	0.26	0.00
Emerging markets spread duration	0.19	0.10	0.00
Swap spread duration	1.07	0.45	0.00
Covered bond spread duration	0.06	0.06	0.00
Sovereign related spread duration	0.66	0.67	0.00

**Benchmark duration is calculated by PIMCO
Benchmark: Bloomberg AusBond Bank Bills Index

Country and currency exposure

Country exposure by country of settlement

	31 Dec '21		31 Mar '22		Benchmark	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
United States	-0.21	18.46	-0.49	7.02	0.00	0.00
Japan	0.06	-0.77	-0.15	-2.27	0.00	0.00
Eurozone	-0.16	-4.27	-0.46	-0.98	0.00	0.00
Belgium	0.04	0.00	0.04	0.00	0.00	0.00
European Union	0.70	0.00	0.78	0.00	0.00	0.00
Euro Currency	0.00	-4.27	0.00	-0.98	0.00	0.00
France	-0.77	0.00	-0.82	0.00	0.00	0.00
Germany	-0.31	0.00	-0.52	0.00	0.00	0.00
Ireland	0.08	0.00	0.01	0.00	0.00	0.00
Italy	0.09	0.00	0.05	0.00	0.00	0.00
Latvia	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	-0.57	-2.27	-0.63	-1.81	0.00	0.00
Europe non-EMU	-0.36	-0.53	-0.45	-0.89	0.00	0.00
Czech Republic	-0.27	0.71	-0.29	0.27	0.00	0.00
Denmark	0.04	0.04	0.04	0.06	0.00	0.00
Norway	0.00	0.60	0.01	1.15	0.00	0.00
Poland	-0.14	0.15	-0.24	0.27	0.00	0.00
Sweden	0.01	-0.53	0.01	-0.28	0.00	0.00
Switzerland	0.00	-1.49	0.03	-2.35	0.00	0.00
Dollar Block	0.31	96.13	0.59	100.50	0.13	100.00
Australia	0.05	100.74	0.44	101.86	0.13	100.00
Canada	0.08	-3.04	-0.02	-0.47	0.00	0.00
New Zealand	0.17	-1.57	0.17	-0.89	0.00	0.00
Other Industrialized Countries	0.23	-1.83	0.37	-2.76	0.00	0.00
Chile	-0.08	0.09	-0.14	0.59	0.00	0.00
Hong Kong	-0.01	-0.10	0.01	-0.37	0.00	0.00
Israel	0.27	0.20	0.23	-0.80	0.00	0.00
Singapore	0.03	-0.48	0.04	-0.66	0.00	0.00
South Korea	0.03	-1.29	0.22	-1.12	0.00	0.00
Taiwan	0.00	-0.24	0.00	-0.39	0.00	0.00
EM - Asia	0.39	-3.34	0.38	-1.69	0.00	0.00
China	0.05	-0.90	0.03	-0.16	0.00	0.00

Benchmark: Bloomberg AusBond Bank Bills Index

Country and currency exposure

Country exposure by country of settlement

	31 Dec '21		31 Mar '22		Benchmark	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
Indonesia	0.00	0.36	0.00	0.33	0.00	0.00
India	0.05	-1.24	0.05	-0.37	0.00	0.00
Malaysia	0.14	-0.11	0.15	-0.37	0.00	0.00
Philippines	0.00	-0.70	0.00	-0.43	0.00	0.00
Thailand	0.15	-0.75	0.15	-0.69	0.00	0.00
EM - Latin America	-0.09	-0.90	-0.08	3.17	0.00	0.00
Dominican Republic	0.00	0.04	0.00	0.06	0.00	0.00
Brazil	-0.04	0.09	-0.04	0.97	0.00	0.00
Colombia	0.00	-0.04	-0.03	0.82	0.00	0.00
Mexico	-0.06	-1.13	-0.02	0.39	0.00	0.00
Peru	0.00	0.14	0.00	0.93	0.00	0.00
EM - CEEMEA	-0.03	-0.68	-0.05	-0.31	0.00	0.00
Egypt	0.00	0.00	0.00	-0.10	0.00	0.00
Kenya	0.00	0.00	0.00	-0.01	0.00	0.00
Hungary	-0.10	-0.01	-0.10	-0.14	0.00	0.00
Romania	0.00	-0.36	0.00	-0.13	0.00	0.00
Russia	0.00	0.41	0.00	0.01	0.00	0.00
South Africa	0.07	-0.31	0.05	0.26	0.00	0.00
Kazakhstan	0.00	0.03	0.00	0.00	0.00	0.00
Turkey	0.00	-0.44	0.00	-0.20	0.00	0.00
Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total	-0.44	100	-0.98	100	0.13	100

Benchmark: Bloomberg AusBond Bank Bills Index

Important Disclosures

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Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

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The Bloomberg AusBond Bank Bills Index is an unmanaged index representative of the total return performance of Australian money market securities. It is not possible to invest in an unmanaged index.

Portfolio allocations and other information in the charts in this Quarterly Investment Report are based on the fund's net assets.

The following defined terms are used throughout the report. **Emerging market short duration instruments** includes an emerging market security or other instrument economically tied to an emerging market country by country of risk with an effective duration less than one year and rated investment grade or higher or if unrated, determined to be similar quality by PIMCO. **Net other short duration instruments** includes securities and other instruments (except instruments tied to emerging markets by country of risk) with an effective duration less than one year and rated investment grade or higher or, if unrated, determined by PIMCO to be of comparable quality, commingled liquidity funds, uninvested cash, interest receivables, net unsettled trades, broker money and derivatives offset. With respect to certain categories of short duration securities, the Adviser reserves the discretion to require a minimum credit rating higher than investment grade for inclusion in this category. **Short duration derivatives and derivatives offsets** include: 1) derivatives with an effective duration less than one year and where the country of risk is not an emerging market country (for example, Eurodollar futures) and 2) offsets associated with investments in futures, swaps and other derivatives. Such offsets may be taken at the notional value of the derivative position which in certain instances may exceed the actual amount owed on such positions.

The performance figures presented reflect the performance for the institutional class unless otherwise noted.

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Important Disclosures

PIMCO uses an internal model for calculating effective duration, which may result in a different value for the duration of an index compared to the duration calculated by the index provider or another third party.

Important Disclosures

Acronyms and definitions of investment terms used throughout the report:

Alpha is a measure of performance on a risk-adjusted basis calculated by comparing the volatility (price risk) of a portfolio vs. its risk-adjusted performance to a benchmark index; the excess return relative to the benchmark is alpha.

Average coupon is the average of the coupon payments of the underlying bonds within the portfolio.

Average effective maturity is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each bond's effective maturity by the market value of the security.

"Bend-but-not-break" refers to credits that PIMCO would not expect to default in a credit-stressed environment.

Beta is a measure of price sensitivity to market movements. Market beta is 1.

Breakeven inflation rate (or expectation) is a market-based measure of expected inflation or the difference between the yield of a nominal and an inflation-linked bond of the same maturity.

Carry is the rate of interest earned by holding the respective securities.

The terms **"cheap"** and **"rich"** as used herein generally refer to a security or asset class that is deemed to be substantially under- or overpriced compared to both its historical average as well as to the investment manager's future expectations. There is no guarantee of future results or that a security's valuation will ensure a profit or protect against a loss.

CPI is the Consumer Price Index.

The **credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

Dividend yield is represented by the weighted average coupon divided by the weighted average price.

Duration is the measure of a bond's price sensitivity to interest rates and is expressed in years.

Effective duration is the duration for a bond with an embedded option when the value is calculated to include the expected change in cash flow caused by the option as interest rates change.

Forward curve is a function graph that defines the prices at which a contract for future delivery or payment can be concluded today.

Information ratio is a ratio of portfolio returns above the returns of a benchmark to the volatility of those returns.

Like-duration Securities are calculated by the index provider by comparing the index return to a hypothetical matched position in the security.

The **Option Adjusted Spread (OAS)** measures the spread over a variety of possible interest rate paths. A security's OAS is the average return an investor will earn over Treasury returns, taking all possible future interest rate scenarios into account. The OAS is the net spread over the swap curve that will on average be earned if the security is held to maturity.

"Risk assets" are any financial security or instrument that are likely to fluctuate in price.

Risk premia is the return in excess of the risk-free rate of return an investment is expected to yield.

Roll yield is the yield that a futures investor captures as their long position in a futures contract converges to the spot price.

"Safe haven" is an investment that is expected to retain or increase in value during times of market turbulence.

The **SEC yield** is an annualized yield based on the most recent 30 day period.

Tracking error measures the dispersion or volatility of excess returns relative to a benchmark.

To relate the price sensitivity of ILBs to changes in nominal yields, yield beta is applied to nominal changes to arrive at a price sensitivity of ILBs to changes in nominal rates. A **yield beta** of 0.90 implies that if nominal yields move 100 basis points, real yields will move 90 basis points. ILBs with long maturity may respond differently to changes in nominal rates than shorter maturity ILBs.

The distribution yield for monthly paying Funds is calculated by annualizing actual dividends distributed for the monthly period ended on the date shown and dividing by the net asset value on the last business day for the same period. The distribution yield for quarterly paying Funds is calculated by taking the average of the prior four quarterly distribution yields. The quarterly distribution yields are calculated by annualizing actual dividends distributed for the quarterly period ended on the most recent quarterly distribution date and dividing by the net asset value for the same date. The yield does not include long- or short-term capital gains distributions.

Asset-Backed Security (ABS); Bank of England (BOE); Bank of Japan (BOJ); Breakeven Inflation (BEI); Collateralized Debt Obligation (CDO); Collateralized Loan Obligation (CLO); Commercial Mortgage-Backed Security (CMBS); Developed Markets (DM); Emerging Markets (EM); Federal Reserve Board (The Fed); Europe Central Bank (ECB); Federal Open Market Committee (FOMC); Foreign Exchange (FX); Gross Domestic Product (GDP); Gulf Cooperation Council (GCC); High Yield (HY); Inflation-Linked Bond (ILS); Investment Grade (IG); Leveraged-buyout (LBO); Loan-to-Value (LTV); Master Limited Partnership (MLP); Mortgage-Backed Security (MBS); Market Weighted Spread (MWS); Real Estate Investment Trust (REIT); Residential Mortgage-Backed Security (RMBS); Treasury Inflation-Protected Security (TIPS); Year-over-Year (YoY)