



# PIMCO Global Credit Fund



Quarterly Investment Report | 1Q24

## Wholesale Class

For the use of Wholesale Clients (within the meaning of the Corporations Act 2001 (Cth) only). Not for retail distribution.

## **IMPORTANT NOTICE**

Please note that this material contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

# Executive summary

## Portfolio Performance

The PIMCO Global Credit Fund outperformed its benchmark by 23 basis points (before fees) over the quarter primarily due to credit strategies positioning.

### CONTRIBUTORS

- Overweight exposure to investment grade corporate credit contributed to relative performance
- Overweight exposure to securitised assets, notably non-Agency mortgage-backed securities, contributed to relative performance
- Tactical positioning in emerging Asia high yield credit contributed to relative performance

### DETRACTORS

- Currency positioning, notably in USD and CNY, detracted from relative performance
- Underweight exposure to external emerging market credit detracted from relative performance

Performance periods ended 31 Mar '24	3 mos.	FYTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	SI
Net of fees (%)	-0.21	3.47	3.30	-2.51	0.01	2.38	5.40
Benchmark*	-0.29	3.46	3.21	-2.38	0.06	2.33	5.04

### Past performance is not a reliable indicator of future results.

Returns for periods longer than 1 year are annualised.

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

We remain selective on generic corporate credit risk and focus on bottom-up security selection, emphasizing resilient issuers with positive rating trajectories and attractive valuations.

All-in yields remain elevated compared to the last 15 years and yields around current levels have historically represented attractive entry points for long-term investors. In this environment, non-cyclicals, select consumer-oriented sectors, defensive BBBs, new issues, and potential rising stars continue to offer attractive opportunities, while ongoing macro volatility and recession risk may lead to downside scenarios in lower quality credits.

\*Bloomberg Global Aggregate ex Treasury Index hedged into AUD

<b>Class:</b>	<b>WHOLESALE</b>
<b>Inception date:</b>	<b>28 Apr '04</b>
<b>Fund assets (in millions):</b>	<b>AUD1,402.71</b>

Summary information	31 Mar '24
Effective duration (yrs)	4.97
Benchmark duration (yrs)	5.84
Effective maturity (yrs)	6.92
Average coupon	4.27%

Top 5 overweights (MV%)	Portfolio	BM*
Banks	22.23	16.80
Transportation Services	2.65	0.72
Independent E&P	2.19	0.31
Automotive	2.38	1.00
Brokerage	2.39	1.21

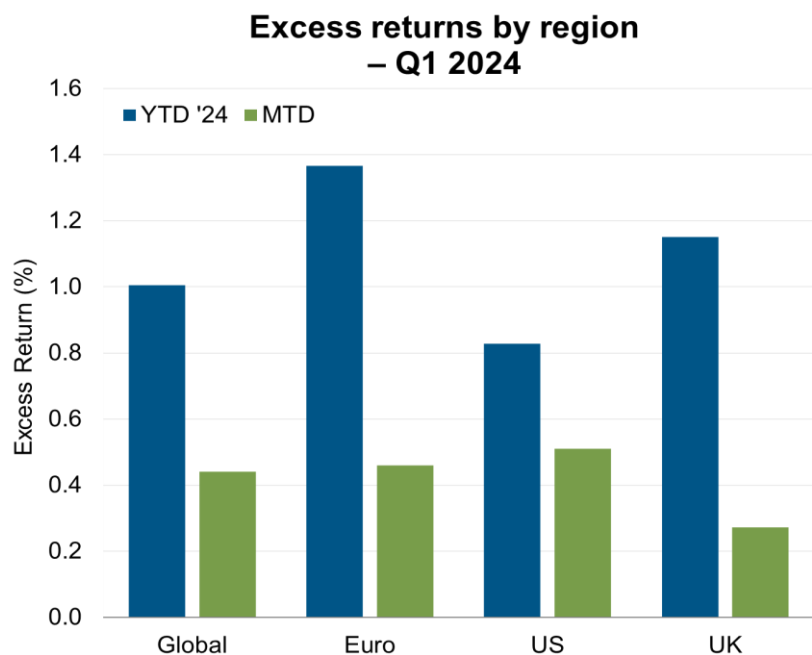
Top 5 underweights (MV%)	Portfolio	BM*
Pharmaceuticals	0.08	1.59
Healthcare	0.05	1.09
Food & Beverage	0.47	1.45
Electric Utility	3.30	4.20
Retailers	0.00	0.77

Quality Exposure (MV %)	31 Mar '24
AAA	25.49
AA	27.59
A	20.56
BBB	22.65
Sub Investment Grade	3.72
<b>Average Credit Quality</b>	<b>A+</b>

# Quarter in Review

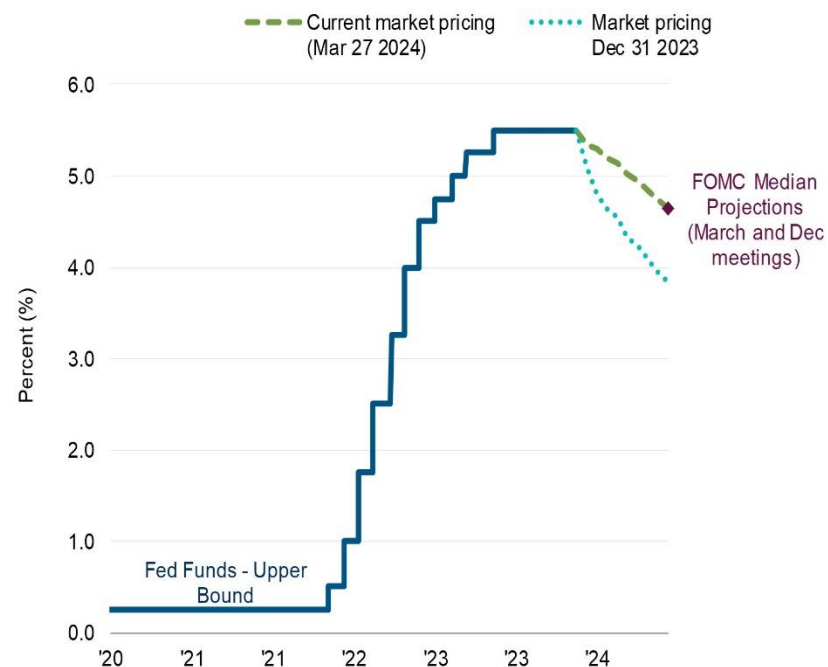
## Credit spreads ended the first quarter tighter amid improved risk sentiment

Global investment grade credit spreads tightened by 13bps over the quarter to 92bps. Risk sentiment remained robust in Q1'24 while investors delayed and reduced their expectations for rate cuts in 2024 as the BoE, ECB and Federal Reserve held policy rates steady. Meanwhile, in Japan the BoJ raised its policy rate for the first time since 2007, marking the end of negative interest rate policies. Against this backdrop, the Bloomberg Global Aggregate Credit Index outperformed-like duration government bonds by 1.0% over the quarter, with a total return of 0.1% (USD hedged).



On an excess return basis, all regional credit markets posted positive returns during the first quarter as spreads tightened amid improved risk sentiment. The Euro credit market outperformed over the quarter amid improving macroeconomic sentiment in select geographies.

Source: Bloomberg, ICE BofA Merrill Lynch



Persistent inflationary pressures saw bond markets retrace their Q4'23 rally, with market pricing now in line with the Fed's median dot plot projection for year end 2024 (which remained unchanged relative to December projections).

Source: Bloomberg

# Market Summary

## Q1'24: Inflation rebound

The Fund's spread and interest rate strategies contributed to relative performance, while currency strategies was a detractor over the quarter.

### Developed market debt

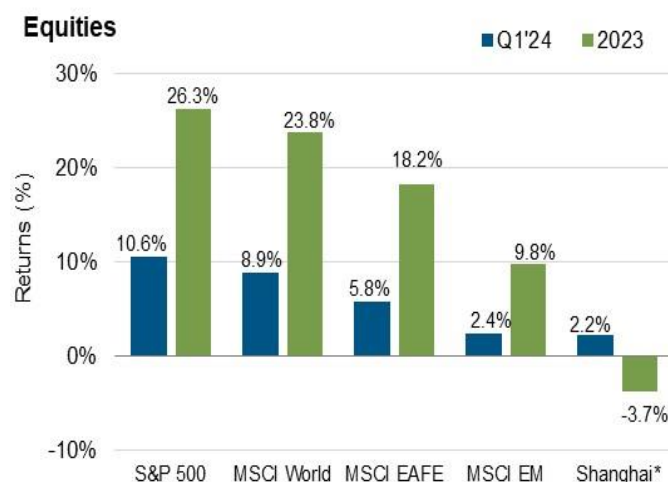
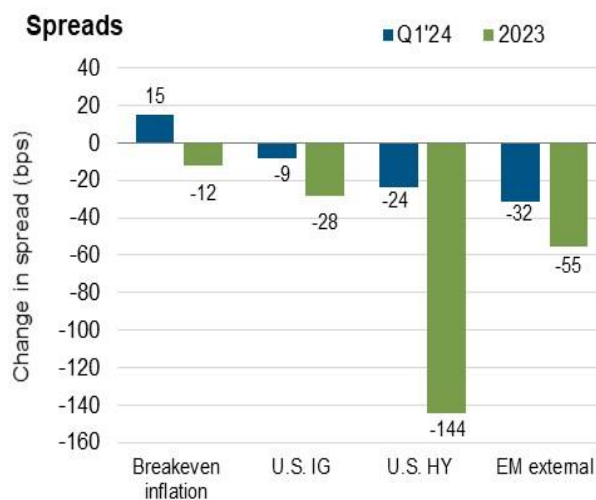
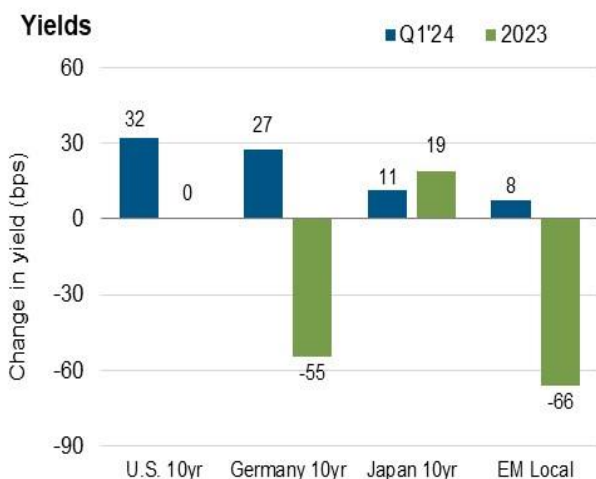
Yields rose broadly across developed markets as inflation remained firm and economic activity robust, particularly in the U.S. While central banks generally held policy rates steady, including in the U.S., U.K., and Europe, dovish remarks from officials bolstered risk sentiment even as investors adjusted expectations for rate cuts in 2024. In Japan, the BoJ hiked rates for the first time in 17 years, ending its negative interest rate policy.

### Credit

U.S. investment grade credit<sup>1</sup> spreads tightened 8 bps, ending the quarter at 85 bps. The sector returned -0.41%, outperforming like-duration treasuries by 0.83%. Credit spreads continued to tighten amid strong earnings results and heavy issuance to start the year.

### Equities

Developed market equities<sup>2</sup> rose 8.9% in the first quarter of 2024 driven by optimism around interest rate cuts, easing inflationary pressures, and economic growth.



Source: U.S. 10yr, Germany 10yr, Japan 10yr, Breakeven inflation (Bloomberg); EM local (JPMorgan GBI-EM Global Diversified Composite Yield to Maturity Index); U.S. investment grade credit (Bloomberg U.S. Credit Index); U.S. high yield credit (ICE BofA High Yield Constrained Index); EM external (JPMorgan Emerging Bond Index Global Sovereign Spread); S&P 500 (S&P 500 Total Return Index); MSCI EAFE (MSCI EAFE Net Total Return USD Index); MSCI EM (MSCI Emerging Net Total Return USD Index); \*Shanghai (Shanghai Stock Exchange Composite Index).

1: Bloomberg US Credit Index

2: MSCI World Index

## Investment implications: Opportune time to consider going active in global fixed income

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### Look global

Greater-than-usual focus on bond markets outside of the U.S.

### Lock in elevated yields

Intermediate maturities can offer a “sweet spot” with markets expecting cash rates to fall

### Favor high quality

Up-in-quality bias in both public and private credit markets

### Go active

Differentiated macro paths present compelling opportunities for active investors

# Portfolio Outlook

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## Strategic outlook

Higher savings balances and a slower pass-through of monetary policy in the U.S. relative to other developed markets could, in our view, keep inflation above the Fed's 2% target over the cyclical horizon. We still expect the Fed to start normalizing policy at midyear, similar to other DM central banks; however, the Fed's subsequent rate-cutting path could be more gradual. Additionally, we believe that an economic soft landing is achievable, but both recessionary and inflationary risks remain elevated in the aftermath of unprecedented global shocks to supply and demand.

## Key strategies

### Credit outlook

Investment grade credit fundamentals have remained resilient thus far as earnings as well as debt leverage metrics have remained relatively stable over recent quarters. Slowing consumer demand and margin pressures continue to represent headwinds for select industries and issuers, and tightening credit conditions remain a downside risk over the cyclical horizon. That said, given strong starting levels, credit fundamentals are generally expected to remain resilient even in a downturn. With respect to valuations, all-in yields remain elevated compared to the last 15 years and yields around current levels have historically represented attractive entry points for long-term investors.

### Top Underweights

We remain underweight issuers with limited upside and potential re-leveraging risk in sectors such as food & beverage and pharmaceuticals. We also maintain an underweight position to sectors with asset-light business models or more shareholder-friendly balance sheet practices such as technology and integrated oil. Similarly, we also take a cautious stance towards issuers in sectors facing secular challenges to their core business models, such as retailers.

### Top Overweights

We favor bank capital exposure from large systemic banks which benefit from high capital levels, years of balance sheet de-risking and positive regulatory developments. We retain a favourable view of the gaming, airline, and lodging sectors, as continued strength in leisure and business travel as well as strong consumer demand is feeding through to material earnings improvements and de-leveraging potential. Within gaming, we are focused on names well positioned to capitalize on secular tailwinds and growth opportunities. Within airlines, we remain focused on higher quality EETCs (enhanced equipment trust certificates) as well as other secured airline debt.

### Interest Rate / Currency Strategies

The Fund is underweight to overall duration with a focus on country, maturity and instrument selection. Focus duration underweight in Japan, given the end to negative interest rate policy, and the U.S., where inflation remains sticky. Currency strategies continue to act as a diversifying strategy in the portfolio and we seek opportunities in carry and valuation dispersion across countries

# Sector exposure

	Portfolio				Benchmark	
	% of Market value		Duration in years		% of Market value	Duration in years
	31 Dec '23	31 Mar '24	31 Dec '23	31 Mar '24	31 Mar '24	31 Mar '24
<b>Government</b>	-0.73	-15.41	0.47	0.08	0.16	0.01
<b>Semi-Gov</b>	3.11	3.23	0.11	0.11	10.99	0.77
<b>Agency</b>	4.45	4.70	0.16	0.18	6.64	0.32
<b>IG Corporates</b>	42.97	49.00	1.92	2.12	37.80	2.30
Financial	25.90	29.70	1.04	1.16	15.64	0.73
Industrial	14.85	16.73	0.71	0.76	19.07	1.33
Utilities	2.22	2.57	0.17	0.20	3.07	0.24
Other Investment Grade Credit	0.00	0.00	0.00	0.00	0.03	0.00
<b>High Yield</b>	2.91	2.76	0.06	0.06	0.00	0.00
Financial	0.15	0.16	0.00	0.00	0.00	0.00
Industrial	0.99	0.57	0.02	0.01	0.00	0.00
Utilities	0.00	0.00	0.00	0.00	0.00	0.00
Other High Yield Credit	1.77	2.03	0.04	0.05	0.00	0.00
<b>Securitized*</b>	38.83	40.70	1.92	2.04	29.10	1.65
Agency Mortgages	31.67	33.57	1.69	1.81	23.30	1.41
Non-Agency Mortgages	5.00	4.84	0.17	0.18	0.80	0.03
Asset-Backed Securities	0.33	0.35	0.01	0.01	0.39	0.01
Covered Bonds	1.83	1.94	0.05	0.05	4.61	0.20
<b>Emerging Markets**</b>	7.97	8.43	0.32	0.32	15.24	0.78
Sovereigns	5.67	6.06	0.26	0.26	2.67	0.19
Quasi-Sovereigns	1.42	1.41	0.04	0.04	10.93	0.51
Corporates	0.89	0.95	0.01	0.01	1.65	0.08
<b>Cash Equiv &amp; Other</b>	0.49	6.60	0.08	0.05	0.08	0.00
<b>Total</b>	<b>100</b>	<b>100</b>	<b>5.04</b>	<b>4.96</b>	<b>100</b>	<b>5.83</b>

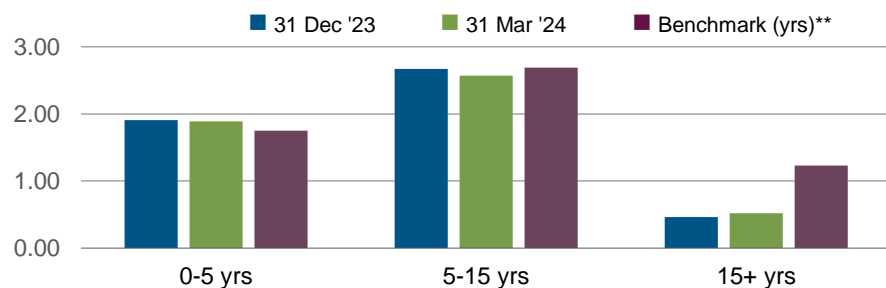
\*Securitized includes Agency MBS, non-Agency MBS, CMBS, ABS, CDO, CLO, and Pooled Funds.

\*\*Emerging markets 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. Emerging Markets includes the value of short duration emerging markets instruments previously reported in another category.

Benchmark: Bloomberg Global Aggregate ex Treasury Index hedged into AUD

# Portfolio characteristics

## Key rate duration exposure



	Portfolio (yrs)		Benchmark (yrs)**
	31 Dec '23	31 Mar '24	31 Mar '24
0-5 yrs	1.91	1.89	1.75
5-15 yrs	2.67	2.57	2.69
15+ yrs	0.46	0.52	1.23
<b>Total</b>	<b>5.04</b>	<b>4.98</b>	<b>5.67</b>

## Interest rate exposure

	Portfolio (yrs)		Benchmark (yrs)**
	31 Dec '23	31 Mar '24	31 Mar '24
Effective duration	5.05	4.97	5.67
<b>Spread duration</b>			
Mortgage spread duration	2.23	2.37	1.36
Corporate spread duration	2.30	2.52	2.47
Emerging markets spread duration	0.38	0.38	0.80
Swap spread duration	1.35	1.18	0.00
Covered bond spread duration	0.08	0.08	0.21
Sovereign related spread duration	0.28	0.30	0.98

\*\*Benchmark duration is calculated by PIMCO  
Benchmark: Bloomberg Global Aggregate ex Treasury Index hedged into AUD



# Country and currency exposure

Country exposure by country of settlement

	31 Dec '23		31 Mar '24		Benchmark	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
<b>United States</b>	3.39	-0.88	3.30	-0.34	3.62	-0.00
<b>Japan</b>	-0.35	0.74	-0.44	0.48	0.05	0.00
<b>Eurozone</b>	1.04	-0.57	1.09	-0.49	1.16	-0.00
Austria	0.00	0.00	0.00	0.00	0.02	0.00
Belgium	0.00	0.00	0.00	0.00	0.03	0.00
European Union	1.16	0.00	1.20	0.00	0.52	0.00
Finland	0.00	0.00	0.00	0.00	0.01	0.00
Euro Currency	0.00	-0.57	0.00	-0.49	0.00	-0.01
France	0.04	0.00	0.04	0.00	0.20	0.00
Germany	-0.22	0.00	-0.22	0.00	0.23	0.00
Greece	0.00	0.00	0.00	0.00	0.00	0.00
Ireland	0.00	0.00	0.00	0.00	0.00	0.00
Italy	0.04	0.00	0.05	0.00	0.03	0.01
Luxembourg	0.02	0.00	0.02	0.00	0.01	0.00
Netherlands	0.00	0.00	0.00	0.00	0.06	0.00
Lithuania	0.00	0.00	0.00	0.00	0.00	0.00
Portugal	0.00	0.00	0.00	0.00	0.00	0.00
Slovakia	0.00	0.00	0.00	0.00	0.00	0.00
Slovenia	0.00	0.00	0.00	0.00	0.00	0.00
Spain	0.01	0.00	0.01	0.00	0.04	0.00
Estonia	0.00	0.00	0.00	0.00	0.00	0.00
Malta	0.00	0.00	0.00	0.00	0.00	0.00
<b>United Kingdom</b>	0.18	-0.01	0.24	-0.04	0.14	0.00
<b>Europe non-EMU</b>	0.00	0.00	0.00	0.00	0.08	-0.00
Denmark	0.00	0.00	0.00	0.00	0.01	0.00
Croatia	0.00	0.00	0.00	0.00	0.00	0.00
Norway	0.00	0.00	0.00	0.00	0.00	0.00
Poland	0.00	0.00	0.00	0.00	0.00	-0.00
Sweden	0.00	0.00	0.00	0.00	0.02	-0.00
Switzerland	0.00	0.00	0.00	0.00	0.05	0.00
<b>Dollar Block</b>	0.49	100.61	0.49	100.25	0.36	100.00
Australia	0.27	100.54	0.30	100.26	0.07	100.00

Benchmark: Bloomberg Global Aggregate ex Treasury Index hedged into AUD

# Country and currency exposure

Country exposure by country of settlement

	31 Dec '23		31 Mar '24		Benchmark	
	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)	Duration (yrs)	FX (%)
Canada	0.15	0.06	0.15	-0.01	0.28	-0.00
New Zealand	0.07	0.00	0.05	-0.01	0.00	0.00
<b>Other Industrialized Countries</b>	-0.00	-0.49	-0.00	-0.50	0.01	-0.00
Singapore	0.00	0.00	0.00	0.00	0.00	-0.00
South Korea	0.00	0.00	0.00	0.00	0.01	-0.00
Taiwan	-0.00	-0.49	-0.00	-0.50	0.00	0.00
<b>EM - Asia</b>	0.29	0.60	0.30	0.63	0.42	0.00
China	0.29	0.11	0.30	0.11	0.42	0.00
Indonesia	0.00	0.24	0.00	0.25	0.00	-0.00
India	0.00	0.24	0.00	0.26	0.00	0.00
Thailand	0.00	0.00	0.00	0.00	0.00	0.00
<b>EM - Latin America</b>	-0.00	0.00	-0.00	0.00	0.00	0.00
<b>EM - CEEMEA</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Liabilities</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>5.05</b>	<b>100</b>	<b>4.97</b>	<b>100</b>	<b>5.84</b>	<b>100</b>

Benchmark: Bloomberg Global Aggregate ex Treasury Index hedged into AUD

# Important Disclosures

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Investments made by a Fund and the results achieved by a Fund are not expected to be the same as those made by any other PIMCO-advised Fund, including those with a similar name, investment objective or policies. A new or smaller Fund's performance may not represent how the Fund is expected to or may perform in the long-term. New Funds have limited operating histories for investors to evaluate and new and smaller Funds may not attract sufficient assets to achieve investment and trading efficiencies. A Fund may be forced to sell a comparatively large portion of its portfolio to meet significant shareholder redemptions for cash, or hold a comparatively large portion of its portfolio in cash due to significant share purchases for cash, in each case when the Fund otherwise would not seek to do so, which may adversely affect performance.

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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Bloomberg Global Aggregate Ex Treasury Index hedged into AUD is an unmanaged market index representative of the total return performance of ex Treasury major world bond markets on a AUD hedged basis. 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.

All \$ amounts referenced are in USD and source citations are PIMCO unless stated otherwise.

# Important Disclosures

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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.**

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.

**Fallen angel** is a bond that was initially given an investment grade rating but has since been reduced to below investment grade status.

**GFC** is the Global Financial Crisis.

**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.

**LNG** is Liquefied Natural Gas.

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.

**Rising star** is the term given to a bond that was rated high yield but has since been upgraded to investment grade.

**"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.

**"Safe Spread"** is defined as sectors that we believe are most likely to withstand the vicissitudes of a wide range of possible economic scenarios. All investments contain risk and may lose value.

The **SEC yield** is an annualized yield based on the most recent 30 day period. The subsidized yield includes contractual expense reimbursements and it would be lower without those reimbursements. The

**Unsubsidized 30 day SEC Yield** excludes contractual expense reimbursements.

**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)