Specialist Hedged International Share

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the MSCI World (ex-Australia, ex-tobacco) Accumulation Index with net dividends reinvested (hedged back to Australian dollars) on a rolling three-year basis, through investing in a diversified portfolio of international shares. This option aims to be fully hedged to Australian dollars. In certain market conditions, the portfolio may hold a higher level of cash than the 10% limit.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Global Shares
Suggested minimum investment timeframe	5 years
Relative risk rating	High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International shares	100
Cash	0

Actual Allocation	%
International Shares	99.24
Cash	0.76

Sector Allocation	%
Information Technology	19.15
Health Care	14.18
Financials	13.36
Consumer Discretionary	11.79
Industrials	10.09
Communication Services	9.29
Consumer Staples	6.68
Cash	4.25
Energy	4.09
Materials	2.98
Utilities	2.27
Real Estate	1.86
Others	0.01

Top Holdings	%
Visa Inc	2.37
Alphabet Inc	2.14
Mastercard Inc	2.03
Facebook Inc	1.91
Microsoft Corp	1.76
Starbucks Corp	1.56
NetEase Inc	1.41
AbbVie Inc	1.40
Novartis AG	1.35
HCA Healthcare Inc	1.25

Region Allocation	%
North America	57.84
Europe ex UK	16.38
Japan	6.70
Asia ex Japan	6.62
United Kingdom	5.83
Cash	4.24
Others	2.24
Australasia	0.16

Fund Performance

The Fund posted a positive absolute return (before fees), but slightly underperformed its benchmark over the June quarter. All of the five underlying fund managers posted positive returns, and two of them, American Century and Magellan outperformed their respective benchmarks over the period. The Fund continues to outperform its benchmark over the longer term, including over 1, 2, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

Country allocation detracted from relative performance over the period. Exposures to emerging markets, particularly China, South Korea and Taiwan were the main detractors, while an exposure to Russia was the main positive contributor. In developed markets, an underweight exposure to France was a modest detractor, while an underweight exposure to Japan was a modest positive contributor.

Sector allocation also detracted from relative performance. An underweight exposure to financials and an overweight exposure to health care were the main detractors, while underweight exposures to energy and real estate were the main positive contributors.

Stock selection made a modest positive contribution to relative performance. The largest positive contributors were overweight exposures to Mastercard, Starbucks and Arconic. US financial-tech company Mastercard rose (+13.8%) as it launched new products and services, which complement the shift to cashless modes of payment. US coffee giant Starbucks rallied (+14.5%) after the California Office of Environmental Health Hazard Assessment found that coffee does not pose a 'significant' cancer risk, and the company's Chief Financial Officer noted that the brand was preferred by younger customers, suggesting future growth. US manufacturing company Arconic surged (+36.9%) after reporting better-than-expected Q1 2019 results and conducting a US$200 million share buy-back.

The largest individual detractors were overweight exposures to Abbvie and Autohome, and an underweight exposure to Walt Disney. US biopharmaceutical company Abbvie dived (-7.8%) after announcing plans to acquire Irish pharmaceutical company Allegan for US$63 billion. Chinese online car dealership Autohome fell (-17.6%) despite reporting better-than-expected Q1 2019 results, mainly due to macroeconomic headwinds related to the US-China trade dispute. US media company, Walt Disney, jumped (+27.3%) after it announced plans to launch Disney+, its rival to Netflix, in November this year, offering content from five key Disney brands: Disney, Pixar, Marvel, Star Wars and National Geographic.

The hedged exposure to the Australian dollar had a negative impact on returns, primarily because the currency depreciated verses the US dollar over the period.

Market Review

The MSCI World (ex Australia) index finished the quarter up by 3.51%. Global equities were strong early in the quarter, amid a mostly positive US reporting season. Upbeat sentiment around the globe was further supported by a relatively dovish US central bank, sound levels of economic growth, strong resource prices and US-China trade deal optimism. Markets subsequently took back some of these gains mid-quarter. An escalating US-China trade conflict was the major culprit, along with the US flagging the possibility of increasing tariffs more broadly. Markets then powered ahead in June, with some even breaking record-highs as dovish central bank policies drove market sentiment. European equities, particularly Germany's DAX index, were very strong, as expectations of further easing from the European Central Bank rose. Emerging markets, while positive, couldn't match their developed counterparts' performance over the quarter; the MSCI Emerging Markets index finished the period up by 0.20%, despite mostly strong resource prices and broadly positive sentiment. (All indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Outlook

Despite the general rise in share prices since the beginning of the year; looking ahead, elevated valuations and a currently unresolved US-China trade dispute present an asymmetric risk exposure, with an increased risk of a correction. The current environment of uncertainty has the potential to provide periods of heightened volatility as we enter the September quarter.

The downside risk will likely be exacerbated by geo-political risks, including the potential for an escalation in the conflict between the US and Iran.

In Europe, a weakening economy and political upheaval, including Brexit and internal European Union disagreements, will likely increase risks. Furthermore, with the German economy remaining susceptible to a further slowdown and the European Commission having revised down its growth estimates, any instability at the union's core will mean there will be little to mask any fragility within peripheral economies. Thus, further stimulatory measures are to be expected.

During the current turbulent period and given high valuations, quality companies with solid defensive properties should benefit the most.

Availability

Product Name	APIR
AMP Flexible Lifetime Super	AMP0865AU
AMP Flexible Super - Retirement account	AMP1354AU
AMP Flexible Super - Super account	AMP1483AU
CustomSuper	AMP0865AU
Flexible Lifetime - Allocated Pension	AMP0876AU
Flexible Lifetime - Investments (Series 1)	AMP1006AU*
Flexible Lifetime - Investments (Series 2)	AMP1418AU
Flexible Lifetime - Term Pension	AMP0926AU
SignatureSuper	AMP0953AU
SignatureSuper - Allocated Pension	AMP1156AU
SignatureSuper Select	AMP0953AU

*Closed to new investors

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