Walter Scott Global Equity

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

Aims to achieve a long-term return (before fees and expenses) that exceeds the MSCI World ex-Australia Index, in Australian dollars unhedged with net dividends reinvested. The portfolio provides exposure to a concentrated portfolio of global equities by investing in securities which, in Walter Scott's opinion, offer strong and sustained earnings growth. The portfolio is actively managed using a benchmark unaware, fundamental, bottom-up and research-driven approach to build a portfolio of strong growth companies capable of generating wealth over long periods of time.
The investment approach combines detailed financial analysis with business and management analysis.
The investment portfolio is constructed with a primary focus on stock-based analysis.

The Fund Manager expects that on average, and based on long-term experience, 15 to 25% of the stocks in the portfolio will be turned over each year, which reflects the investment manager's long-term buy and hold approach. The portfolio's exposure to international assets is not hedged back to Australian dollars.

Investment Option Performance

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

Investment Option Overview

Investment category	Global Shares
Suggested investment timeframe	7 years
Relative risk rating	6 / High
Investment style	Growth
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100.00	98.31
Cash	0.00	1.69

Regional Allocation	%
North America	57.95
Europe ex UK	16.85
Japan	7.53
Asia ex Japan	6.12
United Kingdom	5.61
Emerging Markets	4.25

Top Holdings	%
AIA Group Ltd	3.09
Edwards Lifesciences Corp	3.05
Mastercard Inc.	2.87
Keyence Corp.	2.82
Starbucks Corp.	2.69
Adobe Inc.	2.55
Microsoft Corp.	2.53
Walt Disney	2.39
Taiwan Semiconductor Manufacturing	2.37
Stryker Corp	2.27

Sector Allocation	%
Information technology	25.42
Health care	20.36
Consumer discretionary	15.28
Consumer staples	9.73
Industrials	8.25
Energy	5.21
Communication services	4.21
Materials	3.73
Financials	3.09
Utilities	3.03
Real estate	0.00

Investment Option Commentary

In April, Disney hosted an investor day on their direct-to-consumer strategy which has reignited the market's enthusiasm for the business. Management's vision is a streaming service full of Disney content (incorporating Marvel, Pixar, Star Wars etc), Disney+. On top of this, there will be similar platforms for ESPN+ and content from Hulu. If successful, this will have the effect of creating a Netflix-esque business within Disney and, long term, the company will be able to capture more of the economics from its existing ecosystem.

There was encouraging news from healthcare information technology business, Cerner, this quarter. Management announced a number of initiatives aimed at accelerating the pace of operational transformation across its business and adopting a more aggressive approach towards share buybacks. There was also willingness to pursue strategic M&A and/or partnership opportunities, focusing on capabilities that can leverage Cerner's population health management platform, HealtheIntent.

Waters had had a very strong start to the year, having exceeded consensus expectations last quarter. When its latest set of numbers were weaker than anticipated, the share price fell. The molecule detection and measurement company blamed the slowdown on regulatory changes in China and European macro concerns, leading to delayed budget releases with its big pharmaceutical and industrial customers. These factors had an impact on the historically lumpy instrument sales, which make up almost half of total sales. Having attended Waters' investor day earlier this year, Walter Scott remain incrementally more positive on the company's long-term opportunities.

Booking Holdings was purchased, and Denso and EssilorLuxottica sold, during the quarter. As the leading global online travel agency, Booking Holdings (formerly known as Priceline) is well-placed to capture the growth opportunity presented by the continuing migration of travel bookings online. The company's asset-light business model results in an extremely high return structure and significant excess free cashflow. Denso was sold during the quarter; while Denso has successfully maintained its position as a leading components provider within the autos sector, the autos landscape is changing. Given the increased competition in component supply, driven by the move to electric vehicles, and the permeation of electronics into autos, it is not clear that Denso will emerge as one of the winners. Finally, EssilorLuxottica was sold as a result of concerns around the newly merged business, which was first announced in 2017, particularly around the cultural differences between the French lenses manufacturer and the Italian consumer eyewear group. Those differences appeared central to the fact that integration plans are only now being drawn up and that the search for a new CEO for the combined group is expected to take almost two years.

Market Commentary

The Walter Scott Global Equity Fund returned 4.76% for the quarter ending June 2019, compared with a return for the Benchmark of 5.19%.

The Fund's Materials stocks, Linde and Shin-Etsu Chemical, were the strongest sector performers and, leading their index, were noteworthy relative contributors. Communication Services stocks, in particular The Walt Disney Company, and Industrials companies were also strong in absolute terms. The Fund's Information Technology holdings, most notably Cognizant Technology Solutions, lagged their sector index and were the largest relative detractors. Despite Health Care holding, Cerner, being the best individual performer in the Fund, the Health Care sector also detracted from relative performance. From a regional perspective, Europe (ex UK) stocks, such as KONE Corporation and LVMH, were the strongest absolute performers. Both emerging markets holdings, CNOOC and Taiwan Semiconductor, fell during the quarter and were key relative detractors. The Fund's US stocks lagged their index and detracted from relative performance; Waters Corporation was the weakest individual performer within the Fund.

Outlook

Looking ahead, equity markets will continue to focus on the trade dispute in the short term. There is a realisation that 'winning' the trade war may not come without cost. Disrupted supply chains, increased inflation, itself exacerbated by still-tight labour markets, and a potential diminution of world trade; the Sino-US rivalry is being played out against the backdrop of more uncertain economic times, and has compounded concerns that the long-running upward trajectory of the global business cycle is losing momentum. Given the risks, it is all the more relevant to focus on financially strong businesses that are globally diversified, have the flexibility to adapt as trade flows change, and have a sustainable competitive advantage that is not reliant on hiding behind tariff barriers or an unsustainable cost advantage. For Walter Scott, it is about investing in innovative market-leading companies whose long-term prospects remain undimmed by the arguably murkier global economic picture.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1601AU
AMP Flexible Super - Retirement account	AMP1625AU
AMP Flexible Super - Super account	AMP1616AU
CustomSuper	AMP1601AU
Flexible Lifetime - Allocated Pension	AMP1637AU
SignatureSuper	AMP1607AU
SignatureSuper Allocated Pension	AMP1631AU

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