Blackrock Scientific Hedged International Share

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

To provide returns before fees that exceed the MSCI World ex-Australia Net TR Index (hedged in AUD) by 2.5% to 3.0% pa over rolling three-year periods, while maintaining a similar level of investment risk to the index. The strategy utilises a combination of active stock selection strategies across international developed stock markets that aim for the best trade-off between returns, risk and costs.

Investment risk is managed by diversifying across many regions and countries and by holding the shares of a large number of companies within each industry. A passive currency hedge is used to convert the currency exposure of the Index back to Australian dollars. This type of hedging strategy involves the forward sale of a set of currencies in amounts that correspond to the beginning of period value of the international assets in the portfolio. The hedge is then reset periodically or as required, to account for any changes in the value of the international assets in the portfolio. When derivative positions are established, they will always be backed by cash holdings and/or underlying assets. Derivative securities will not be used to leverage exposures.

Investment Option Performance

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

Investment Option Overview

Investment category	Global Shares
Suggested investment timeframe	5 years
Relative risk rating	7 / Very High
Investment style	Core (Hedged)

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100	99.1
Cash	0	0.9

Regional Allocation	%
United States	69.4%
Canada	5.2%
Japan	5.1%
Germany	3.3%
United Kingdom	3.0%
France	2.6%
Netherlands	2.2%
Ireland	1.7%
Switzerland	1.4%
Norway	1.1%
Finland	0.9%
Spain	0.8%
Sweden	0.7%
Hong Kong	0.7%
Israel	0.5%
Luxembourg	0.4%
Denmark	0.3%
Italy	0.3%
Singapore	0.2%
Austria	0.2%
Portugal	0.2%
Belgium	0.1%
New Zealand	0.0%
None	0.0%

Sector Allocation	%
Information Technology	26.4%
Health Care	15.0%
Financials	11.8%
Industrials	11.1%
Consumer Discretionary	8.3%
Communication Services	7.7%
Consumer Staples	7.1%
Energy	3.6%
Real Estate	3.2%
Utilities	2.6%
Materials	2.5%
None	0.9%

Top Holdings	%
APPLE INC	5.2%
MICROSOFT CORP	4.8%
AMAZON COM INC	2.2%
ALPHABET INC CLASS C	1.7%
JOHNSON & JOHNSON	1.6%
NVIDIA CORP	1.6%
ASML HOLDING NV	1.5%
VISA INC CLASS A	1.4%
TESLA INC	1.4%
JPMORGAN CHASE & CO	1.3%

Portfolio Summary

The MSCI World Ex Australia Index declined 8.42% in unhedged AUD terms and 5.02% in fully hedged to AUD terms over the first quarter of the year.

The first quarter of the year was a volatile one for financial markets. Russia's invasion of Ukraine, accelerating inflation, exacerbated global energy shock and rate hikes across global central banks added significantly to investor uncertainty over the period. Supply-driven inflation and commodity prices surged following the sanctioning of Russia, with risk assets extending their sharp rebound off the year's lows. Emerging markets were also weighed down by a new round of Omicron cases and broader geopolitical tensions. The U.S yield curve briefly inverted during the period, prompting recessionary concerns as central banks rhetoric turned more hawkish.

Most global sharemarkets finished the month in the red (in local currency terms). Developed market equities and emerging market counterparts (to a greater degree) declined steeply in a classic risk off move over the period.

Developed market government bond indices were volatile, with strong upside pressure on both short-end and long-end yields driven respectively by expectations for faster monetary tightening and inflationary concerns. Most global bond indices experienced a volatile period and finished the quarter down as rates continued to advance amidst upward trending inflation.

In the US, the S&P 500 Index detracted -4.6% over the quarter (in local currency terms) in line with broader market selloffs as investor's adopted a strict 'risk off' stance given the ongoing invasion of Ukraine by Russia. Energy was the only sector to make gains over the period with Technology and Communications detracting sharply.

On the policy front, the US Federal Reserve (Fed) raised interest rates by 0.25%, in line with market expectations, with further rate hikes expected to rapidly reduce the size of the Fed's $9.0 trillion balance sheet. Markets have priced in a further six increases for the remainder of the year given record inflationary readings. Russia's invasion of Ukraine has placed additional strain on food and energy prices, with inflation accelerating to 7.9% in February, the highest reading since 1982. The US labour market remained resilient over the period with the unemployment rate falling to 3.8% and average hourly earnings growing by 0.5% in February. The flash services and manufacturing PMI reading in March increased to an eight-month high, with business activity more robust than expected.

European equity markets represented through the Euro Stoxx 600 Index detracted -9.0% over the quarter (in local currency terms), underperforming most other developed markets. Concerns around Europe's heavy reliance on Russian oil and natural gas spiked risks of economic deceleration, energy-driven inflation and dampened consumer sentiment given the region's exposure to the ongoing conflict within Ukraine.

Within the European block, annual inflation grew to an all-time high of 7.5% in March, driven by high food and energy prices and a significant increase from February's 5.9% reading. Following a 12-billion-euro debt raising for its coronavirus recovery fund, the European Union discussed the possibility of issuing bonds to finance energy and defense spending to alleviate sharply rising energy costs The European Central Bank (ECB) also confirmed the tapering of the pandemic emergency purchase program (PEPP) in June with a potential rate hike 'some time' after the conclusion of the asset purchase program (APP) in Q3. The flash services Eurozone PMI reading in March slightly fell to 54.5 yet remaining in positive territory as the region displayed strong economic resilience and robust demand recovery post rising COVID-19 cases in late 2021.

Within the UK, equity markets finished the quarter with positive gains of almost 2.9%, as measured by the FTSE Index. UK significantly outperforming most other developed markets due to its relatively higher exposure to energy and materials sectors, with strong contributions from the banking sector on the back of the Bank of England hiking rates by an additional 25 basis points in March. Inflation remains the primary concern within the region, with February's reading of 6.2% the highest in 30 years. Soaring food and energy prices prompted the announcement of a 6-billion-pound fiscal package to support household incomes and increase consumer purchasing power. UK Manufacturing PMI hit 13-month low given supply chain disruptions from the ongoing conflict in Ukraine, however, the Composite PMI remained broadly steady in March, surpassing expectations for a fall despite rising inflation prints.

Asian equities detracted sharply over the quarter, driven by an outbreak of the Omicron variant across China and rising commodity costs. Chinese equities particularly suffered over the period with lockdowns in Shenzhen and Shanghai forcing manufacturing plant shutdowns and a fall in the Manufacturing PMI to below 50 for the first time since late 2019. Concerns about stagflation also dampened investor confidence given the supply-side shock to commodities and subsequent impacts on inflation and reduced growth. The National Congress announced a GDP target of 5.5% for the year with further stimulus expected to support small businesses and consumers.

Japanese equities detracted 2.8 % over the quarter (in local currency terms), however, rebounded in March with gains in financial related value stocks. Higher energy and raw material prices exasperated supply chain concerns within the region as manufacturing activity decreased for the first time in nearly two years. The Bank of Japan (BOJ) announced the purchase of unlimited fixed-rate government bonds to constrain yields within its target range given the rise of interest rates globally.

Strategy Commentary

The portfolio underperformed the benchmark over the first quarter, though March was a positive month for active returns.

Macro Thematic signals detracted over the quarter, though the faster-moving more tactical insights were additive. This included one that trades based on the possibility of a stagflationary environment, driven by the current concerns around growth and inflation. Another insight that trades based on rate spreads to predict policymaker behaviour was also among the most additive signals.

Value signals were also strong overall, benefiting the most from the first month of the quarter as the yield curve shifted unexpected. Signals trading based on analyst revisions, long term reversals, and value oriented metrics were all also among the top ranked strategies for the period.

On the other hand, ESG signals deteriorated during February in response to the oil shock driven by the Russian invasion of Ukraine. The sudden spike in oil prices and rates negatively affected the traditionally quality-connected ESG names.

After a disappointing February caused by the shock of the Russian invasion of Ukraine, the model quickly adapted to the changing environment and was successful in latching onto the currents driving movements in markets. The strategy correctly identified important Sentiment ideas, with insight into short interest from smart money proving additive for the month of March.

Availability

Product name	APIR
SignatureSuper*	AMP0787AU
SignatureSuper Allocated Pension*	AMP1139AU
SignatureSuper Term Pension*	AMP1139AU

*Closed to new investors

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