

Future Directions Emerging Markets

Quarterly Investment Option Update

31 December 2023

Aim and Strategy

To provide high returns over the long term, while accepting a higher level of volatility, through a diversified portfolio of international shares, focusing on emerging markets. The objective is to provide a total return, after costs and before tax, higher than the return from the MSCI Emerging Markets (ex Tobacco) Net Return Index (AUD) on a rolling 3 to 5 years basis.

Investment Option Performance

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

Investment Option Overview

Investment category	Global Shares
Suggested minimum investment timeframe	7 years
Standard Risk Measure	7/Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Global shares	100
Cash	0

Actual Allocation	%
Global Shares	96.91
Cash	2.61
Property	0.48

Sector Allocation	%
Information Technology	21.90
Financials	21.44
Consumer Discretionary	12.84
Industrials	7.29
Consumer Staples	7.22
Communication Services	7.16
Materials	5.64
Energy	4.48
Real Estate	3.44
Health Care	3.22
Cash	2.61
Utilities	2.07
Futures	0.70

Top Holdings	%
TSMC	6.86
Samsung Electronics Co Ltd	4.60
Tencent Holdings Ltd	3.06
Alibaba Group Holding Ltd	1.86
PDD Holdings Inc	1.62
HDFC Bank Ltd	1.41
SK Hynix Inc	1.12
Reliance Industries Ltd	1.11
NetEase Inc	1.10
Vale SA	1.08

Region Allocation	%
Emerging Asia	72.46
Latin America	10.01
Middle East & Africa	7.94
Europe ex UK	2.24
Developed Asia x Aus x Jpn	2.07
Cash	1.96
North America	1.56
Emerging Europe	1.54
United Kingdom	0.22

Fund Performance

The Fund posted a positive return however underperformed the benchmark in the December quarter. All of the Fund's three underlying managers gained ground, with Ninety One leading the way to also outperform the benchmark, whereas Lazard lagged. Over the medium to long-term, Fund performance remains positive overall over the long-term for 5 years, and since inception.

Over the quarter, sector allocation was the primary detractor from Fund returns, mainly due to the overweight exposure to real estate and underweight to IT as well as the cash position, which held back performance as markets rose strongly. From a country allocation perspective, active positioning was marginally negative overall, with the overweight position in the United Arab Emirates and being underweight Taiwan outweighing the contributions from being overweight in Brazil and underweight to China, which again lagged most other emerging markets.

Stock selection was the primary contributor to Fund returns. Exposures within consumer discretionary, industrials and consumer staples contributed most, outweighing the active positioning within financials, energy and communication services which held back relative returns.

At an individual stock level, the largest contributor for the period was the overweight position in Indian defence business Hindustan Aeronautics (+37%), which was buoyed after the company reported its latest quarterly results that showed sustained order book strength, boosted by news that the government was considering modernising its aircraft in 2024 which bode well for its future earnings outlook. The underweight exposure to Chinese online food delivery company Meituan (-32%) also enhanced returns, amid fears over rising competition and a general slowdown in China. Shares in the Fund's overweight holding in Taiwanese-based semi-conductor maker Novatek Microelectronics Corp (+22%) rallied alongside peers following strong results from US tech giants such as Nvidia.

Significant detractors for the quarter included overweight positions in Ping An, CICC and NetEase. Chinese insurer Ping An (-25%) suffered from sluggish sales and concerns about potential real estate exposure. Shares in Chinese financial services company CICC (-20%) fell following the release of weak quarterly earnings which reflected the impact of soft equity markets and industry fee cuts. Chinese gaming company NetEase (-16%) suffered alongside other gaming stocks following the publication of a consultation paper which outlined proposals for new regulations which may include spending limits.

Market Review

After a poor September quarter, the December quarter was one of the strongest seen in recent years for international equities, with major developed markets up by almost 10%, though returns were around 5.3% in Australian dollar terms (due to a stronger Australian dollar). The main driver was significant further falls in inflation, particularly in the US and Europe where it is now finally nearing target levels, combined with some positive economic indicators and reasonable growth. With regard to the path of interest rates, by the end of the quarter, the market appeared to have shifted away from the 'higher for longer' thesis, to now expecting several rate cuts by the US Federal Reserve (Fed) in the months ahead. Interestingly, while technology stocks were responsible for the majority of the markets' gains through 2023, the fourth quarter rally was more broad-based, with most sectors lifted by the rising tide of optimism. Emerging market equities also rose strongly, though underperformed developed markets largely due to falling Chinese shares amid continued growth concerns, deflation and lacklustre manufacturing readings. Further Chinese government stimulus remains likely. South American markets meanwhile were particularly strong, with central banks in the region more dovish than their developed peers.

Outlook

Interest rates around the world are largely accepted as being at their cyclical peak, on the back of significantly decreased levels of inflation. Economic growth remains low, but generally positive. The corporate environment remains tough, though strong businesses, as always, will likely move forward with increased market dominance. We believe a diverse basket of businesses bought at reasonable prices, particularly those with strong competitive advantage that generate high amounts of cash from their shareholders' capital, will serve investors well over the long-term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP1117AU**
Flexible Lifetime - Investments (Series 2)	AMP1414AU**

**Closed to new and existing investors

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