

Fidelity Global Equities

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To achieve returns in excess of the MSCI All Country World (ex-Australia) (ex-Tobacco) Index over the suggested minimum investment time period of five to seven years. The strategy takes a go-anywhere approach – it is managed with broad geographic and sector parameters to allow the portfolio manager to build a portfolio of the best opportunities uncovered by the investment manager’s global research in core international investment. Fidelity believes that markets are semi-efficient and share prices don’t always reflect inherent value. Through in-house, bottom-up company research, Fidelity aims to uncover the opportunities that it believes offer the greatest scope for outperformance. Based on this research approach, Fidelity seeks out shares that it believes are undervalued and likely to generate growth. The companies selected for the portfolio must demonstrate good management, strong competitive advantages and enjoy favourable industry dynamics. The option’s exposure to international assets will not be 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	5 to 7 years
Relative risk rating	6 / High
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	90-100	97.39
Cash	0-10	2.61

Sector Allocation	%
INFORMATION TECHNOLOGY	19.54
FINANCIALS	19.16
HEALTH CARE	11.97
COMMUNICATION SERVICES	9.69
ENERGY	7.93
INDUSTRIALS	7.54
CONSUMER STAPLES	6.74
CONSUMER DISCRETIONARY	5.69
MATERIALS	5.05
REAL ESTATE	3.19

Regional Allocation	%
NORTH AMERICA	53.45
EUROPE EX UK	19.24
EMERGING MARKETS	9.75
JAPAN	8.01
UK	7.02
PACIFIC EX JAPAN	0.00
MIDDLE EAST	0.00
CASH & ONA	2.52

Top Holdings	%
MICROSOFT CORP	2.42
MERCK & CO INC NEW	2.15
ALPHABET INC	2.02
ROYAL DUTCH SHELL PLC	1.91
ORACLE CORP	1.82
JPMORGAN CHASE & CO	1.71
VISA INC	1.65
WELLS FARGO & CO NEW	1.53
ROCHE HOLDING LTD	1.49
NORFOLK SOUTHERN CORP	1.45

Investment Option Commentary

The investment option underperformed the index over the third quarter.

Lower crude oil prices weighed on energy sector holdings

In addition to lower oil prices, weaker than expected quarterly results weighed on Concho Resources and Texas Pacific Land Trust. Nonetheless, Concho's longer-term thesis comprises a strong asset base in the core Permian basin, good management with a strong execution record and competitive free cash flow (FCF) yield. Texas Pacific Land Trust also remains a key holding in the portfolio, given a strong production outlook for its assets in the Permian basin and management's efforts to maximise the value of these assets.

Certain communication services positions declined

Music streaming services provider Spotify Technology fell on news of its decision to extend its free trial period and as a publisher sued the company for copyright infringement. However, Spotify has a long runway for growth with favourable user demographics. The shift to music consumption via on-demand streaming is a secular tailwind. US online travel website operator TripAdvisor declined on lower than expected earnings and a drop in customer volumes. Nevertheless, the company continues to execute well in a challenging market and is seeing traction in its non-hotel segment, driven by strength in its Experiences and Dining businesses.

Robust stock selection in financials and materials

Selected holdings in capital markets, including exchange operators, performed well against a volatile backdrop. European exchange Deutsche Boerse added value on robust quarterly results as well as optimism around its upcoming inclusion into the Eurostoxx 50 index. The company's various business lines wield significant pricing power. Growth assets such as EEX (contracts on power, coal etc) and 360T (foreign exchange) help diversify its business. Its robust balance sheet provides the optionality for merger and acquisitions (M&A) and cash returns. In materials, precious metals royalty and streaming company Royal Gold gained due to an increase in gold prices amid heightened risk aversion. It has a robust business model and is expected to benefit from a sizeable set of M&A opportunities for early to development stage assets, given management's strong reputation for executing accretive transactions.

Market Commentary

An accommodative stance by global central banks supported markets. However, gains were limited as numerous geopolitical risks, including the turmoil in Hong Kong, the collapse of Italy's coalition government and an impeachment inquiry against the US President Donald Trump, impacted investor sentiment. Certain energy and communication services stocks remained out of favour, while security selection in financials and materials added value.

Outlook

The global economy remains in the late-cycle phase. Increasing indications of a deterioration in underlying fundamentals highlight the risks in the economy. Corporate earnings growth expectations for 2019 have weakened. Decelerating global growth could stabilise at subdued but near-trend levels going into the next year. In such an environment, I maintain a cautious stance, with greater emphasis on finding stocks that lose less, rather than gain more. As usual, my investment stance does not vary much by the macroeconomic situation, but is based on the merits of each stock.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1291AU
AMP Flexible Super - Retirement account	AMP1342AU
AMP Flexible Super - Super account	AMP1471AU
CustomSuper	AMP1291AU
Flexible Lifetime - Allocated Pension	AMP1298AU
Flexible Lifetime - Term Pension	AMP1638AU
Flexible Lifetime Investment	AMP0846AU
Flexible Lifetime Investment (Series 2)	AMP1432AU
SignatureSuper	AMP1305AU
SignatureSuper Allocated Pension	AMP1312AU

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