

BlackRock Scientific Hedged International Alpha Tilts

Quarterly Investment Option Update

31 December 2019

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

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Core (Hedged)
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	99-100	99.5
Cash	0-1	0.5

Sector Allocation	%
Information Technology	16.64
Health Care	15.36
Financials	14.80
Communication Services	10.97
Consumer Discretionary	10.82
Industrials	10.76
Consumer Staples	6.89
Materials	5.44
Energy	2.76
Real Estate	2.39
Utilities	2.19
None	0.97

Regional Allocation	%
United States	65.00
Japan	7.46
United Kingdom	5.31
Switzerland	4.41
France	4.35
Germany	3.58
Canada	3.57
Netherlands	1.72
Finland	1.01

Top Holdings	%
MICROSOFT CORP	3.40
APPLE INC	2.41
AMAZON COM INC	2.21
FACEBOOK CLASS A INC	1.94
VISA INC CLASS A	1.58
ROCHE HOLDING PAR AG	1.33

Investment Option Commentary

The international stock selection strategy finished the quarter higher in terms of total returns, however it underperformed its benchmark. Overall, 2019 was a good year for the strategy with an performance around +28% which exceeded its benchmark for the period (Gross of fees). Amongst signal insights, Sentiment contributed while Cross Border Thematics detracted over the quarter. Geographically, the US was weak driven by the underperformance of Quality insights while Europe and Japan contributed. Sectors that detracted the most included Consumer Discretionary, especially through overweight in North American hotel, restaurants and leisure companies. Financials was a drag from poor positioning in North American and European banks while underweights in semiconductors and technology in the US also detracted. On the positive, Industrials contributed thanks to an underweight position in the US aerospace industry and overweight in European machinery.

Positive contributors to performance an underweight position in Boeing Co and an overweight position in Morgan Stanley.

Boeing Co – The world's biggest airplane manufacturer faced a number of headwinds over the quarter. The latest earnings results was weak reflecting difficulties for the company to recover after 2 fatal crashes of its 737 max aircraft. The top selling 737 max model was being reviewed by the FAA and production has been stopped until regulatory issues are resolved. Amidst the crisis, the CEO was pushed out as a 'change of leadership was necessary'. The underweight position was driven by unfavourable Cross Border Thematics and Sentiment insights.

Morgan Stanley – The American investment bank released third quarter profit and revenue that exceeded analysts' expectations. This was mostly driven by strong performance of its trading and advisory business segments. The overweight position was a result of positive Quality and Sentiment insights. Detractors from performance included overweight positions in McDonald's and Toronto Dominion Bank.

McDonald's – The American fast food chain reported its latest quarterly results with earnings and revenue lower than analysts expected. Despite growth sales in line with expectations thanks to promotions and new additions to the menu, the company struggled to keep up with competitors. The overweight position was driven by positive Cross Border Thematics, Sentiment and Momentum insights.

Toronto Dominion Bank – The Canadian multinational banking institution's share price fell after its brokerage subsidiary announced its decision to eliminate online trading decisions to keep up with competition. The company also posted weaker than expected earnings results attributed to restructuring costs but also the lower interest rate environment. The overweight position was a result of generally favourable views across all insights, especially Sentiment.

Market Commentary

The MSCI World Ex Australia Index gained +4.26% in unhedged AUD terms and +7.50% in fully hedged to AUD terms over the fourth quarter of 2019. Several share markets increased well over 20% in 2019 and many equity indices hit new highs along the way.

Investor optimism improved in the last quarter of the year as the US and China administrations reached a "Phase 1" trade deal. Macro data coming out of the US showed that the US economy has stabilised, growing at an annualised rate of 2.1% supported by healthy consumer spending. In the UK, Prime Minister Boris Johnson's Conservative party won a decisive majority of 78 seats in the UK House of Commons, which is likely to lead to an approved Brexit deal by 31 January 2020 and remove some of the political uncertainty in the region. Monetary conditions remained broadly supportive over the quarter. The US Federal Reserve (Fed) and the Reserve Bank of Australia (RBA) lowered interest rates in October but were on hold for the remainder of the year, signaling that there could be an extended pause in rate changes.

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0839AU
Flexible Lifetime Investment (Series 2)	AMP1400AU
AMP Flexible Lifetime Super	AMP0663AU
AMP Flexible Super - Retirement account	AMP1335AU
AMP Flexible Super - Super account	AMP1464AU
CustomSuper	AMP0663AU
Flexible Lifetime - Allocated Pension	AMP0621AU
Flexible Lifetime - Term Pension	AMP0910AU
SignatureSuper	AMP0787AU
SignatureSuper Allocated Pension	AMP1139AU

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