

Schroder Global Value

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

The option is an index unconstrained global equity strategy that aims to generate long-term returns before fees in excess of traditional capitalisation weighted global equity indices by investing in a diversified portfolio of equity and equity related securities of companies worldwide excluding Australia using a Value based investment strategy. Returns provide diversification benefits to typical global equity benchmarks and other global equity managers. Currency exposure is typically unhedged, however currency derivatives may be used with equity index futures in managing cash flows or to manage active currency positions relative to global equity indices for risk management purposes

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	Value
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100%	98.1
Cash	0%	1.9

Sector Allocation	%
Health Care	15.7
Industrials	13.1
Information Technology	12.0
Consumer Discretionary	10.5
Banks	10.1
Communication Services	8.3
Insurance & Asset Manager	7.7
Energy	7.1
Materials	6.8
Consumer Staples	3.6
Real Estate	2.0
Utilities	1.1
Cash	1.9

Regional Allocation	%
North America	34.6
Continental Europe	21.0
Emerging Markets	14.3
Japan	13.3
United Kingdom	9.8
Pacific ex Japan	5.2
Cash	1.9

Top Holdings	%
Novartis Ag	1.08
Glaxosmithkline	1.05
Roche Hldgs AG	1.04
Amgen Inc	1.03
Sanofi	1.02
Intel Corp	1.01
AbbVie Inc	1.01
Pfizer Inc	1.00
International Business Machs	0.97

Portfolio Summary

Global Value outperformed the indices in Q4, recovering some of the losses posted up to August. The largest contributions in the fourth quarter came from the strategy's positioning within the economic and resources sensitive sectors (industrials, materials and energy), health care, as well as their longstanding avoidance of the naïve US bond proxies (US real estate and utilities) as yields edged higher in line with improved confidence in the economy.

Investment Option Commentary

The relative performance of the Global Value strategy over 2019 as a whole reflected the shifting themes throughout the year. As has been the case for the past three years, the main headwind was the ongoing momentum of a narrow group of index heavy growth stocks. The lack of market breadth is a strong detractor to diversified and value aware managers such as Schrodgers. From September, there have been some tentative signs of increased investor interest in the cheaper areas of the market that had lagged sharply behind earlier in the year, which continued into the fourth quarter. Against this backdrop, Global Value outperformed the indices in Q4, recovering some of the losses posted up to August.

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Another key contribution to performance was stock selection within health care where we have built up high conviction positions in quality pharmaceutical names in the US, Continental Europe and Japan. Elsewhere, avoiding the underperformance in US bond proxies (US real estate and utilities), an area of the market which we deem overpriced given their weak and highly-leveraged fundamentals, also proved beneficial.

Reducing their positions within consumer staples earlier in the quarter, especially names with high dividend yields but in their view stretched valuations, also contributed positively as the sector lagged over quarter. In particular, having lower than index positions in some of the more expensive companies within US and Continental European food & drink (e.g. Nestle, PepsiCo and Coca Cola) and home products (e.g. Procter & Gamble and Unilever) contributed.

Partially offsetting this, the chief detractor was not owning a small cohort of mega-cap "growth" stocks, the clear poster child being Apple. Elsewhere within the technology sector, a lower allocation to semiconductors weighed on relative returns as the industry continued to bounce back after lagging earlier in the year. Meanwhile, overweight positions in high quality and attractively valued US companies (Cognizant, IBM) went unrewarded as this area lagged the broader technology sector and market. Financials were also an offset and primarily from positioning in the US – holdings in attractively valued US life & health insurers (Aflac, Principal Financial Group and Unum) and a reduced allocation to complex banks both relative headwinds.

Market Commentary

Global equities maintained their momentum and continued to post strong gains during the fourth quarter of 2019, thanks to the ongoing support of the key central banks and easing fears about a potential cyclical slowdown. The thawing of tensions in the trade spat between the US and China plus a decisive outcome in the UK general election also boosted confidence that some of the key risks facing markets had abated. The MSCI All Country World Index rose by 9.0% in USD terms, boosting its gains over the year as a whole to 26.6%, it's best year since 2009.

Whilst there was some evidence of renewed investor interest in the cheaper areas of the market that had lagged sharply behind earlier in the year, particularly those with a cyclical bias, this was largely offset by continued strong returns in the US technology sector. In particular, a handful of index heavyweights such as Apple (+31% in Q4, +89% over the year) continued to perform very strongly. As a result, the MSCI All Countries World Value Index lagged the Growth index by 2.6% in Q4, widening its underperformance for the year as a whole to more than 12%.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0859AU
AMP Flexible Super - Retirement account	AMP1337AU
AMP Flexible Super - Super account	AMP1466AU
CustomSuper	AMP0859AU
Flexible Lifetime - Allocated Pension	AMP0872AU
Flexible Lifetime - Term Pension	AMP0912AU
Flexible Lifetime Investment	AMP0844AU
Flexible Lifetime Investment (Series 2)	AMP1402AU
SignatureSuper	AMP0967AU
SignatureSuper Allocated Pension	AMP1141AU

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



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