

# Walter Scott Global Equity

Quarterly Investment Option Update

31 March 2020

## Aim and Strategy

Aims to achieve a long-term return (before fees and expenses) that exceeds the MSCI World ex-Australia Index, in Australian dollars unhedged with net dividends reinvested. The portfolio provides exposure to a concentrated portfolio of global equities by investing in securities which, in Walter Scott's opinion, offer strong and sustained earnings growth. The portfolio is actively managed using a benchmark unaware, fundamental, bottom-up and research-driven approach to build a portfolio of strong growth companies capable of generating wealth over long periods of time.

The investment approach combines detailed financial analysis with business and management analysis.

The investment portfolio is constructed with a primary focus on stock-based analysis.

The Fund Manager expects that on average, and based on long-term experience, 15 to 25% of the stocks in the portfolio will be turned over each year, which reflects the investment manager's long-term buy and hold approach. The portfolio's exposure to international assets is not hedged back to Australian dollars.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

<b>Investment Category</b>	Global Shares
<b>Suggested Investment timeframe</b>	7 years
<b>Relative risk rating</b>	6/ High
<b>Investment style</b>	Growth
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100.00	97.17
Cash	0.00	2.83

Sector Allocation	%
Information technology	29.01
Health care	21.41
Consumer discretionary	11.82
Consumer staples	10.34
Industrials	8.36
Energy	4.25
Communication services	4.16
Materials	3.05
Financials	2.54
Utilities	2.23
Real Estate	0.00

Regional Allocation	%
North America	53.78
Europe ex UK	19.44
Japan	8.68
United Kingdom	5.52
Asia ex Japan	5.28
Emerging Markets	4.46

Top Holdings	%
Microsoft Corp	3.51
Keyence Corp	3.49
Roche Holdings Ag	3.23
Taiwan Semiconductor Manufacturing	3.11
Mastercard Inc	3.09
AIA Group Ltd	3.05
Edwards Lifesciences Corp	3.05
Novo Nordisk A/S	2.62
Adobe Inc	2.39
Microsoft Corp	3.51

## Investment Option Commentary

The strategy returned -5.37% (gross) for the quarter ending March 2020, compared with a benchmark return of -9.00%.

**Microsoft** was among the top individual contributors to performance during the quarter. At the end of January, Microsoft released a strong set of results, largely driven by continuing cloud adoption. Commercial cloud revenue increased 39% to US\$12.5 billion with robust contributions from all key products and services. As COVID-19 moved from Asia, the company revised down its guidance in February but it has since benefitted from the mass shift to remote working.

**EOG Resources** was among the top individual detractors from performance during the quarter. The combination of the demand shock of COVID-19 and the supply shock of Saudi Arabia's decision to start a price war with Russia sent global oil prices to an 18-year low. Along with the rest of the sector, EOG Resources' share price was hit hard by this collapse. Despite the current backdrop, the company's recent operational performance has been excellent, with management delivering on its promise to deliver high levels of cash generation, with a greater skew towards returns-based production.

During the quarter, Walter Scott completed the initial purchase of **Texas Instruments**, the dominant player in analogue semiconductors. **Gilead Sciences**, **Schlumberger** and **Starbucks** were also sold during the quarter.

**Booking Holdings** was among the top individual detractors from performance in March. A recent call with the company confirmed what Walter Scott's own analysis has found; the next few months will be extremely challenging for Booking, and the rest of the year is dependent on when the various travel restrictions are lifted. Walter Scott believe that Booking can weather this current storm and emerge as the clear market leader over the long-term, based on three points: first, that 60% of Booking's costs are flexible, either linked to volumes or discretionary advertising; second, the strength of the company's balance sheet; and third, a lack of liquidity concerns.

During the quarter, Walter Scott completed the initial purchase of Texas Instruments, the dominant player in analogue semiconductors. The company stands to benefit from powerful secular tailwinds, namely the proliferation and increasing sophistication of electronics across virtually all industries. Several holdings were also sold during the month: Gilead Sciences, due to its high valuation and uncertainty around the outcome of anti-retroviral drug trials for use against COVID-19; Schlumberger, as a result of the dramatic deterioration of the oil market backdrop increasing the prospects of a dividend cut and elevated balance-sheet risk; and Starbucks, given the unquantifiable downside risks to Starbucks' operations in the short-term as a result of COVID-19 and concerns about its weakened balance sheet.

## Market Commentary

From a sector perspective, the investment option proved more resilient than the benchmark over the quarter, with holdings in Industrials outperforming on a relative basis. Walter Scott's limited exposure to Financials, a sector which has proven particularly vulnerable across the COVID-19 crisis, also contributed strongly to relative outperformance, in addition to the Fund's holdings in Health Care. Holdings in Consumer Discretionary and Energy detracted from relative performance. At a country level, holdings in Switzerland and France were the largest relative contributors to performance, while holdings in the US and China, in the form of the Fund's sole Chinese holding CNOOC, detracted from relative returns. It should be noted that Walter Scott selects stocks from the bottom-up, and as such, geographic and sector exposures are the result of the selection of individual companies.

## Outlook

Looking ahead, the situation around COVID-19 remains highly challenging. Walter Scott's approach to investing offers several features relevant to the current market environment; in particular, its focus on balance sheet strength, holding exposures away from cyclical sectors, and the deep experience that its team brings to bear in all investment decisions. Walter Scott stands ready and able to act, should market volatility present opportunities to invest in the highest quality companies at reasonable valuation levels.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1601AU
AMP Flexible Super - Retirement account	AMP1625AU
AMP Flexible Super - Super account	AMP1616AU
CustomSuper	AMP1601AU
Flexible Lifetime - Allocated Pension	AMP1637AU
SignatureSuper	AMP1607AU
SignatureSuper Allocated Pension	AMP1631AU

## Contact Details

Web: [www.amp.com.au](http://www.amp.com.au)  
Email: [askamp@amp.com.au](mailto:askamp@amp.com.au)  
Phone: 131 267



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