

Future Directions Emerging Markets

Quarterly Investment Option Update

30 June 2020

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 each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Global Shares
Suggested minimum investment timeframe	7 years
Relative risk rating	Very High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International shares	100
Cash	0

Actual Allocation	%
International Shares	95.04
Listed Property and Infrastructure	1.31
Others	0.58
Cash	3.07

Sector Allocation	%
Information Technology	26.56
Financials	14.81
Consumer Discretionary	14.69
Consumer Staples	8.71
Communication Services	7.38
Materials	6.84
Industrials	5.94
Energy	4.18
Health Care	4.13
Cash	3.07
Real Estate	1.98
Utilities	1.57
Others	0.14

Top Holdings	%
Tencent Holdings Ltd	7.36
Alibaba Group Holding Ltd	7.19
TSMC	5.82
Samsung Electronics Co Ltd	5.33
PING AN	2.31
JD.com Inc	1.70
China Construction Bank Corp	1.65
LUKOIL PJSC	1.27
Vale SA	1.19
NetEase Inc	1.04

Region Allocation	%
Asia	73.36
Europe	8.32
Latin America	7.48
Others	4.07
Middle East & Africa	3.70
Cash	3.07

Fund Performance

The Fund posted a positive return but underperformed its benchmark during the June quarter. Of the Fund's three underlying fund managers, while all posted positive returns each underperformed the benchmark. Lazard performed the better of the three, followed by Investec then Schroder. The Fund continues to outperform over the long term, including 5 years and since inception (annualised). (All returns are before fees.)

Stock selection had a negative impact overall on the Fund's relative returns. Country allocation also detracted from relative performance over the period, driven primarily by underweight exposures to Brazil and India, which outweighed the positive impacts of having no exposure to Saudi Arabia and an underweight position in Qatar which added most value.

Sector allocation detracted from relative performance. The main detractors were underweight exposures to consumer discretionary and energy, and an overweight exposure to consumer staples, while the main positive contributor was an underweight exposure to financials.

From a security selection perspective, the main individual detractor was an underweight position in Indian refiner and conglomerate Reliance Industries (+36%), which rallied after Facebook announced early in the period that it would buy 10% of its subsidiary Jio Platforms.

Other detractors included an underweight position in Chinese group-buying website Meituan Dianping (+63%) which soared over the period, and an overweight position in Chinese insurer and financial services provider Ping An of China (-8%) which fell.

The main individual positive contributor was an overweight position in South Korean internet company Kakao Corp (+55%) which soared after reporting better than expected Q1 2020 results. The company's revenue increased 23% compared to the same period last year, with commerce activity on its KakaoTalk messenger application jumping 55% as COVID-19 lockdowns led consumers online to work, communicate and for entertainment. Other positive contributors included underweight positions in China Mobile (-17%) and Industrial and Commercial Bank of China (-17%).

Market Review

Global shares surged back from their March lows over the June quarter, with the MSCI World ex Australia index finishing the period up by 18.5%. This came as virus-related market panic progressively dissipated and lockdowns began to be lifted. Death rates, while high, were also far below previous 'worst-case' scenario estimates. As businesses reopened, most governments maintained (and in some case even increased) their stimulus programmes on offer, leading to continued support for share prices. Various economic indicators also appeared to confirm a global economic recovery was indeed underway, reflected in sharp rises in business confidence and falling rates of unemployment. Contrary to the markets' bullish sentiment, the list of concerns on many investors' radars however only appeared to grow, with issues such as civil unrest in the US, the upcoming US election, Chinese tensions (with Hong Kong, the US, India and even Australia) and an apparently rising risk of a 'second wave' of COVID-19 infections (particularly in the US) leading to a growing sense of unease. Perhaps most pressing for shares, corporate earnings visibility remains low, resulting in many businesses being hard to value, particularly over the short-term. Emerging markets meanwhile were also very strong, driven by the same trends as broader developed markets to return 16.7% over the quarter as measured by the MSCI Emerging Markets index. Commodity-sensitive markets such as South Africa and Brazil generally fared well, as did export heavy markets such as Taiwan and South Korea (Indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Outlook

Given a lack of earnings visibility, we believe investors should exercise some caution, particularly where prices have risen quickly. Amid changing consumer dynamics, many companies will likely struggle for some time, while stronger businesses are likely to emerge from the COVID-19 crisis with gained market share. Pressure on global economies has however begun to ease as various lockdowns and restrictions have been lifted, while highly supportive monetary and fiscal policy continues to provide solid support. While second wave fears persist and are temperamentally traded on, thereby presenting potential retraces/pullbacks, we believe the longer-term market trend will remain to the upside. As always, while the near-term direction of markets is impossible to accurately predict, we generally believe that those with a diversified portfolio of quality businesses, bought at a reasonable price, are likely to do well over the long-term.

Availability

Product Name	APIR
AMP Flexible Super	AMP1479AU*
AMP Flexible Super - Retirement	AMP1350AU*
CustomSuper	AMP1103AU*
Flexible Lifetime - Allocated Pension	AMP1105AU*
Flexible Lifetime - Investments (Series 1)	AMP1117AU*
Flexible Lifetime - Investments (Series 2)	AMP1414AU*
Flexible Lifetime - Super	AMP1103AU*
Flexible Lifetime - Term Pension	AMP1109AU*
SignatureSuper	AMP1114AU*
SignatureSuper - Allocated Pension	AMP1153AU*

*Closed to new investors

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