

BlackRock Scientific Hedged International Share

Quarterly Investment Option Update

30 September 2020

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:
www.amp.com.au/performance

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	99.0
Cash	0-1	1.0

Sector Allocation	%
Information Technology	22.3
Health Care	14.2
Consumer Discretionary	14.0
Financials	10.0
Consumer Staples	9.4
Industrials	9.3
Communication Services	8.6
Materials	4.3
Real Estate	3.2
Energy	2.0
Utilities	1.9
Other	0.9

Regional Allocation	%
United States	67.0
Japan	7.9
France	4.5
Switzerland	3.4
United Kingdom	3.4
Germany	2.8
Canada	2.7
Netherlands	2.2
Ireland	1.9

Top Holdings	%
Microsoft Corp	4.1
Apple Inc	3.9
Amazon Com Inc	3.0
Nestle Sa	1.6
Alphabet Inc Class C	1.5
Alphabet Inc Class A	1.4

Investment Option Commentary

The international stock selection strategy had a positive quarter and outperformed its benchmark. Amongst signal insight groups Momentum was the main driver of performance followed by Cross Border Thematics while Relative Valuation detracted. Geographically, the US contributed the most, driven by Momentum and Cross Border Thematics. Cross Border Thematics detracted in Europe and Canada but added in Japan. Looking at sectors, Consumer Discretionary contributed the most thanks to the strong performance of overweights in hotels, restaurants and leisure in the US but also specialty retailers and apparel names, again mostly in the US. Underweights in pharmaceuticals in Europe and US and overweights in healthcare equipment and supplies in the US added to the HealthCare sector. Energy benefitted from underweights in Europe and US while favourable positioning in Europe and US helped Consumer Staples. Industrials lagged driven by an overweight in Japan which did not perform well and underweights in air freight in the US. Energy also detracted due to generally unfavourable positioning in North America and Europe.

Positive contributors to performance included overweight positions in Salesforce and Sika.

SalesForce – The American customer software company Salesforce was a strong beneficiary of the pandemic as more businesses are shifting to digital to reach out to clients, as reflected by its latest quarterly results well above market expectations. The overweight position was a result of favourable views across all insights, especially Cross Border Thematics, Relative Valuation and Sentiment.

Sika – The Swiss multinational specialty chemical company Sika reported improved sales and confirmed that its long-term strategic targets were on track despite the on-going impact of the coronavirus affecting its operations globally. The overweight position was driven by favourable Sentiment, Cross Border Thematics and Momentum insights.

Detractors from performance included overweight positions in Sirius XM and Nordstrom.

Sirius XM – American broadcaster Sirius XM has been affected by the pandemic generally but also by the decline in car sales which impacts the number of pre-installed satellite radio systems and potential for new subscriptions to its platform. The overweight position was driven by positive Momentum, Quality and Sentiment insights.

Nordstrom – The American luxury department store chain Nordstrom released weak earnings, well below market expectations, with sales down -53% yoy due to the extended lockdown over the period. The overweight position was a result of favourable views across Momentum and Relative Valuation insights.

Market Commentary

The MSCI World Ex Australia Index gained 3.78% in unhedged AUD terms and 6.42% in fully hedged to AUD terms over the third quarter of 2020.

Most global sharemarkets gained over the third quarter of 2020, despite a significant pull-back towards quarter-end.

US equities were amongst the best performers over the quarter, with the S&P500 index gaining almost 9% despite giving back some gains in September. The US economy has improved significantly from the troughs experienced during the strict lockdown period, but the positive momentum seems to be slowing. Industrial production (including manufacturing utilities and mining) also improved significantly over the quarter but remained below levels seen in January and February. Retail sales figures were a positive highlight (slightly higher than the January highs), yet the composition has changed significantly. Consumers have redirected spending from travel, leisure and services to durables and other hard goods. The US housing market also proved to be resilient. The latest data showed that new and existing home purchases in the US exceeded their pre-pandemic levels.

Another key development over the quarter was the announcement by the US Federal Reserve Bank ('Fed') to adopt a new framework on average inflation targeting; i.e. the Fed aims to achieve an inflation rate averaging 2% over time, rather than at any point in time. There were however no real details on how average inflation is defined, or how the Fed would achieve this new target given the inability to meet the previous inflation target consistently over the past decade. The Fed also revised its policy stance around changes in employment, which could connect future decisions on interest rate hikes to unemployment figures rather than inflation. Even though the announcement lacked details around implementation, many market participants believed that this implies accommodative monetary policy for even longer. The market is pricing in a near-zero US cash rate through 2023.

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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