

Future Directions Emerging Markets

Quarterly Investment Option Update

31 December 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/performance

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	96.57
Listed Property and Infrastructure	0.67
Cash	2.76

Sector Allocation	%
Information Technology	25.76
Consumer Discretionary	15.84
Financials	14.70
Communication Services	10.08
Materials	8.83
Industrials	6.71
Consumer Staples	4.91
Energy	3.67
Health Care	3.63
Cash	2.76
Utilities	1.72
Real Estate	1.37
Futures	0.01

Top Holdings	%
TSMC	6.92
Samsung Electronics Co Ltd	6.38
Tencent Holdings Ltd	5.67
Alibaba Group Holding Ltd	5.14
PING AN	2.03
Vale SA	1.75
Infosys Ltd	1.44
China Construction Bank Corp	1.30
JD.com Inc	1.22
MediaTek Inc	1.20

Region Allocation	%
Emerging Asia	75.90
Latin America	7.35
Emerging Europe	6.50
Middle East & Africa	3.18
Cash	2.76
Developed Asia x Aus x Jpn	2.13
Europe ex UK	1.57
United Kingdom	0.59
North America	0.01

Fund Performance

The Fund posted a strong positive return but underperformed its benchmark over the December quarter. All three of the Fund's underlying managers posted positive returns, and Ninety One outperformed the benchmark. The Fund also has posted strong positive returns over the longer term and has outperformed its benchmark over 5 years and since inception (annualised). (All returns are before fees.)

Country allocation detracted from relative returns over the period. The main detractors were an overweight exposure to Hong Kong and an underweight exposure to Brazil, as well as a cash holding as markets generally rallied. The main contributors were underweight exposures to Saudi Arabia and China, and an overweight exposure to Korea.

Sector allocation contributed positively to relative returns. The main contributors were an overweight exposure to information technology and an underweight exposure to consumer discretionary, while the main detractor was an underweight exposure to financials.

Stock selection was the key reason for the Fund's underperformance, mainly due to positions in health care and consumer discretionary stocks. The main individual detractor was an underweight position in Chinese electric vehicle manufacturer NIO Inc which rocketed higher (+113.4%) after reporting strong revenue growth and increased production capabilities. In addition, the company's 'battery-as-a-service' program is expected to generate strong future revenue growth and keep its vehicle owners loyal to the brand. Other detractors included underweight positions in Chinese agriculture-focussed e-commerce platform Pinduoduo which also rocketed higher (+122.6%) and South Korean semiconductor supplier SK Hynix which rallied (+42.0%).

The main individual positive contributor was an overweight position in the Taiwanese electronics manufacturer Delta Electronics, which soared (+205.1%) after a string of good news, including very strong revenue growth over the year and expansion of its data centre solutions business. Other positive contributors included an underweight position in Indian multinational conglomerate Reliance Industries which fell (-16.7%), and an overweight position in South Korean multinational electronics company Samsung Electronics which surged (+39.7%).

Market Review

International shares made very strong gains over the December quarter, rising 12.33% as measured by the MSCI World ex Australia index. This capped off a strong 2020 calendar year return of 13.77% which was achieved despite the record-breaking crash in early 2020.

Shares fell early in the quarter as COVID-19 numbers continued to rise in many parts of Europe and the US, leading some countries to reintroduce social distancing restrictions, which in many cases have been shown to be devastating to economies and businesses. Mid-quarter however, the market received a huge boost from announcements of successful COVID-19 vaccine trials from Moderna, Pfizer and Oxford-AstraZeneca. These vaccines were shown to be around 95% effective in preliminary results. Approval and initial rollout have now already occurred in some countries, with markets closely watching for medical results and data.

The other major story over the quarter was the US election, with a Biden win finally confirmed in very early January 2021, as was a Democrat victory in both the Senate and the House. Markets broadly reacted positively as results increased in clarity through the period. On one hand, a Democrat victory is seen by some as positive for the US economy, as greater direct stimulus is now likely to be approved, which will provide some much-needed financial help for many, others see potential debt issues and increased taxation for businesses as likely issues down the track.

In other positive news for markets, the UK and Europe also finally agreed on a Brexit deal at year-end, over 4 years after the referendum, allowing markets to put much of the related uncertainty into the rear-view mirror.

Emerging markets, meanwhile, were also very strong over the period and outperformed their developed market peers, as economies continued to recover and resource prices rose strongly. The MSCI Emerging Markets index closed the quarter up 16.02%.

Latin American share markets, such as Colombia and Brazil were particularly strong, boosted by higher resource prices. Turkey's share market surged as the central bank raised interest rates three times to contain inflation, which was well received by investors. Export-sensitive Asian share markets, such as South Korea, benefitted from expectations of improved relations between the US and China, as well as rapid economic recovery in China. The Asian region also benefitted from the signing of the Regional Comprehensive Economic Partnership (RCEP) free trade agreement.

(All indices are quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Outlook

The medium-term outlook for earnings remains difficult to predict; and varies greatly depending on company specifics. There is also the potential for shorter-term volatility as the market digests the implications of a Biden administration. We continue to believe investors should exercise caution, particularly where prices have risen quickly, and where valuations look stretched. Amid changing consumer dynamics, many companies will likely face challenging conditions for some time, while stronger businesses are likely to emerge from the COVID-19 crisis with gained market share. Risks of further pandemic breakouts and, indeed, the manner in which governments choose to respond, remain a risk until vaccines are fully implemented. Governments generally continue to implement supportive monetary and fiscal programmes to ease shorter-term burdens and keep economies more resilient, though some concern is growing around the sustainability of some programmes. Despite this, 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 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 - Retirement	AMP1350AU*
AMP Flexible Super - Super	AMP1479AU*
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, **Closed to new and existing investors

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