

# Schroder Global Value

Quarterly Investment Option Update

31 December 2020

## 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/performance](http://amp.com.au/performance)

## 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>	Value
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100	99.4%
Cash	0	0.6%

Sector Allocation	%
Consumer Discretionary	15.2
Health Care	14.2
Information Technology	13.5
Industrials	11.6
Insurers & Asset Mgt	10.2
Banks	8.4
Communication Services	7.8
Materials	7.8
Energy	6.0
Consumer Staples	2.7
Real Estate	1.1
Utilities	1.0
Cash	0.6

Regional Allocation	%
North America	43.8
Emerging Markets	21.9
Continental Europe	14.5
Japan	11.1
United Kingdom	6.7
Pacific ex Japan	1.4

Top Holdings	%
Johnson & Johnson	1.06
AbbVie	1.04
Novartis	1.02
Roche	1.01
3M	0.95
Merck & Co.	0.94
Amgen	0.94
Oracle	0.90
Cisco	0.83

## Portfolio Summary

- The QEP Global Value strategy performed strongly during the fourth quarter, beating both the broad MSCI All country Index and the corresponding Value index, but still failed to recoup the losses incurred against the broad index earlier in the year. Over the fourth quarter, the strategy benefitted from holdings in financials, resources (particularly integrated oil & gas and miners) as well as other cyclical industries such as semis and auto parts. Being underweight real estate stocks, which Schroders avoid due to concerns about their leverage and business prospects, was another benefit.
- Partially offsetting these tailwinds were their holdings in pharmaceuticals, which tick most of their boxes in terms of offering attractive valuations alongside stable profitability without leverage, but which underperformed as investors favoured more cyclical stocks. The sell-off in gold also negatively impacted their positions in gold miners. Finally, not owning Tesla alone detracted more than 0.25% during the quarter.

## Investment Option Commentary

The QEP Global Value strategy performed strongly during the fourth quarter, beating both the broad MSCI All country Index and the corresponding Value index, but still failed to recoup the losses incurred against the broad index earlier in the year. At a high level, the market favoured beaten up cheap cyclical stocks that had lagged sharply earlier in the year but which are far less attractive from a quality perspective. For example, airline stocks jumped by 26% but are still down by almost a third on the year as a whole.

Over the fourth quarter, the strategy benefitted from holdings in financials (insurers, banks, asset managers), which are more geared into equity market gains. Stock selection was also positive in resources (particularly integrated oil & gas and miners) as well as other cyclical industries such as semis and auto parts. Being underweight real estate stocks, which Schroders avoid due to concerns about their leverage and business prospects, was another benefit. The correction in Alibaba as a consequence of increased regulatory scrutiny also assisted. Schroders are underweight the Chinese ecommerce giant on valuation grounds but it now represents the 8th largest stock in the MSCI All country Index.

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In what was an extremely challenging year for all value orientated investors, the QEP Value strategy outperformed the MSCI's Value index by a significant margin over 2020 due to their greater focus on company quality. This led us to sidestep many very cheap but in their view challenged businesses, most notably within financials (particularly banks) and energy whilst favouring areas such as semis, miners and pharmaceuticals.

## Market Commentary

Global stocks ended 2020 at all time highs, capping off a turbulent year which contained one of the sharpest sell-offs on record in response to the dual shocks of a global pandemic and an oil price war, followed by an equally swift recovery fuelled by unprecedented economic stimulus. However, abstracting from the tumultuous backdrop, the key theme of the year by far was the continued dominance of a narrow group of widely held stocks which were already the established market leaders of recent years. The three largest stocks in the MSCI AC World Index: Apple, Microsoft and Amazon, which now make up over 9% of the benchmark, increased in value by 82%, 43% and 76% (in USD terms) respectively during 2020. The performance of these index heavy-weights, alongside many other "stay-at-home" beneficiaries such as Netflix (+67%) and Facebook (+33%), was the other side of the ongoing neglect of a much broader list of attractively valued companies regardless of their fundamental attributes. However, the poster child for the highly thematic nature of the market was clearly Tesla which rose by a staggering 743% during 2020 to finish as the 6th largest stock in the MSCI AC World Index.

After a volatile start to the fourth quarter due to a second wave of lockdowns in Europe, support for the equity rally gained strength as uncertainty over the outcome of the US election faded and, more importantly, the arrival of a successful vaccine in early November increased optimism towards a V-shaped economic recovery. The MSCI AC World Index advanced by 15% in Q4, taking its gain for the year to 16%. The improvement in sentiment favoured many areas that had been caught on the wrong side of the pandemic (e.g. airlines, leisure) as well as energy stocks and banks, which tend to benefit from rising bond yields. However, the long heralded rotation was in fact a fairly narrow partial rebound in "deep value" beaten-up cyclical stocks. Moreover, the popular stocks failed to capitulate, with the FANG+ Index broadly tracking the market higher during the quarter. From a style perspective, MSCI's Value Index modestly outperformed the broader AC World Index by 1.9% in Q4 but was still as much as 17% behind for the year as a whole, its weakest performance on record. It was also a poor quarter for more defensive strategies such as Quality and Minimum Volatility as investors preferred "beta" and cyclicity over stability.

Emerging markets in particular benefitted from the improvement in economic optimism towards the end of the year, as appetite for risk gained momentum and the decline of the US dollar amplified returns. With China recovering strongly, commodity markets rallied considerably over the quarter resulting in significant gains for resource exposed areas of the market. This drove strong performance within Latin America, the best performing region over the fourth quarter (+35%).

## Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1466AU*
AMP Flexible Super - Retirement	AMP1337AU*
CustomSuper	AMP0859AU*
Flexible Lifetime - Super	AMP0859AU*
Flexible Lifetime - Allocated Pension	AMP0872AU*
Flexible Lifetime - Term Pension	AMP0912AU*
Flexible Lifetime - Investments (Series 1)	AMP0844AU**
Flexible Lifetime - Investments (Series 2)	AMP1402AU**
SignatureSuper	AMP0967AU*
SignatureSuper - Allocated Pension	AMP1141AU*

\*Closed to new investors

\*\*Closed to new and existing investors

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