

BlackRock Scientific International Share

Quarterly Investment Option Update

30 September 2021

Aim and Strategy

To provide returns before fees that exceed the MSCI World ex-Australia Net TR Index (unhedged 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 option 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. This option is not hedged to the Australian dollar. 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 amp.com.au

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	5 years
Relative risk rating	7 / Very High
Investment style	Core
Manager style	Single Manager

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

Sector Allocation	%
Information Technology	24.0%
Health Care	13.8%
Financials	12.8%
Industrials	12.6%
Consumer Discretionary	11.5%
Communication Services	8.2%
Consumer Staples	5.1%
Energy	3.6%
Utilities	2.9%
Materials	2.8%
Real Estate	2.1%
None	0.6%

Regional Allocation	%
United States	67.2%
Japan	5.6%
Canada	4.8%
Germany	3.6%
United Kingdom	3.2%
France	2.8%
Netherlands	2.1%
Ireland	1.9%
Switzerland	1.8%

Top Holdings	%
APPLE INC	4.6%
MICROSOFT CORP	3.4%
AMAZON COM INC	2.3%
ALPHABET INC CLASS A	1.9%
ALPHABET INC CLASS C	1.7%
JOHNSON & JOHNSON	1.6%

Investment Option Commentary

The international stock selection strategy had a strong quarter in absolute terms; however, it underperformed its benchmark over the period. In terms of insights, Cross Border Thematics and Value detracted while Sentiment added. Geographically, Momentum drove the positive performance in US, however, this was offset by poor performance in Europe where Cross Border Thematics did not work well. Looking at sectors, Consumer Discretionary was the main source of underperformance due to overweights textile, apparel and luxury goods and specialty retailers in Europe. Industrials also detracted through overweights within the sector, notably air freight in Europe and North America, while large overweights banks and insurance in North America were a drag on Financials. The Energy sector added thanks to overweights oil, gas and consumable fuels in Norway and the US.

Positive contributors to performance included overweight positions in Equinor Asa and Agilent Technologies.

Equinor Asa – The Norwegian energy company Equinor beat market expectations with its latest quarterly results. While helped by the increase in commodity prices, the result also highlighted strong revenue growth, notably in the crude oil segment. The overweight position was a result of favourable views across Sentiment, Value and Quality insights.

Agilent Technologies – American life science company posted strong results with revenue and profits growth that beat consensus estimates. Management reported that it is back to pre-covid levels and also upgraded its guidance for the full year. The overweight position was driven by generally positive views Momentum and Quality.

Detractors from performance included overweight positions in Zalando and Cigna Corp.

Zalando – After benefitting from the pandemic and the shift to online, German fashion retailer Zalando – much like its industry peers - saw its share price come under pressure over increased uncertainties on inflation, supply chains and the rise of covid-19 cases through Europe. The overweight position was a result of positive views across most insights, especially Sentiment, Quality, Cross Border Thematics and Momentum insights.

Cigna Corp – The American health insurance company Cigna Corp beat consensus with its latest results, recording increased revenue and profits, however, investors worried that cost pressure related to covid could impact FY results. The overweight position was driven by positive Momentum and Sentiment insights.

Market Commentary

The MSCI World Ex Australia Index gained 3.99% in unhedged AUD terms and 0.57% in fully hedged to AUD terms over the third quarter of 2021.

The third quarter of the year was volatile for most financial markets. Whilst it started well, some gains were erased in September when global equities and fixed income assets retreated. Risk appetite deteriorated towards quarter-end due to increasing concerns such as China's growth slowdown, the energy crisis, inflation and potential tapering by global central banks.

Developed market equities finished the quarter slightly positive after a moderate correction in September. Emerging markets were down on the quarter, weighed by China as the third quarter of the year was underscored by broadly negative news; between regulatory crackdown on select sectors to fears around a potential default on a large Chinese property developer and the contagion effect of the same.

Global sovereign bond yields rose considerably in September on monetary policy normalization speculation, as the Federal Reserve's (Fed) further guidance on the central bank's outlook saw a hawkish direction. In addition, the Reserve Bank of New Zealand (RBNZ) hiked interest rates in October. Energy prices continued to charge ahead as supply constraints drove prices to new highs, further exacerbating inflationary pressures globally.

US equities represented through the S&P 500 Index gained 0.6% over the quarter, despite September's sell-off when the S&P 500 index declined 4.7%. Higher yields, concerns around slowing economic growth and developments in China all weighed on risk sentiment over the month. In terms of sectoral moves, technology stocks underperformed whereas banks benefited from higher yields, and energy prices drove sensitive sectors higher.

On the policy front and considering fresh inflationary pressures, at the recent September Federal Open Market

Committee (FOMC) meeting, the Fed struck a slightly hawkish tone when they signaled their intention to announce a tapering of asset purchases in November, with broad support for a timeline which would complete the process by mid-2022. The shift comes in the context of a revised real GDP growth to the downside whereas inflation has risen.

The August nonfarm payroll report surprised negatively, as the headline number printed well below the consensus. A significant factor for the underwhelming numbers was the decline in reopening-sensitive categories such as airline fares and hotel rates. Both retracted significantly as concerns around the Delta variant dimmed traveling prospects.

European equity markets represented through the Euro Stoxx 600 Index closed modestly flat over the quarter. The energy sector was one of the strongest performers, with information technology also seeing a robust advance.

In terms of policy, the European Central Bank (ECB) decided to reduce the pace of asset purchases under its pandemic emergency purchase program (PEPP) for the fourth quarter as expected. The ECB upgraded its growth and inflation forecast for 2021, however in contrast to global peers, the narrative was that the rise in inflation is mostly transitory and that it would tolerate any moderate and transitory overshoot of its 2% inflation target. Preliminary data for September Euro Area inflation brought Core YoY inflation to 1.9%, in line with expectations.

Macro data was mixed over the quarter, but the positive momentum appears to be slowing. Business activity in the eurozone disappointed versus expectations, especially in September. Purchasing managers' index (PMI) readings showed a broad-based loss of momentum but remained in expansionary territory. Growth in the service sector moderated more quickly than expected in September as the reopening-driven recovery is fading. On the political front, Germany held a general election which saw the Social democrats take the largest share of votes and coalition talks are now under way over the formation of a new government.

Within the UK, equity markets finished the third quarter with positive gains of almost 2%, as measured by the FTSE index. September surprised to the upside with strong data prints showing the UK rebounding following the easing of coronavirus restrictions. The UK reported a final Q2 GDP growth of 5.5%, well ahead of market estimates. However, the Flash UK Composite PMI dropped in September, below expectations, but remained in expansionary territory. Despite job growth accelerating, wage growth has also increased. Continued supply chain disruptions and difficulty in sourcing raw materials contribute to a more challenging environment for businesses and UK business confidence gauges have eased to lows.

The Bank of England (BoE) raised the prospect of hiking interest rates to as soon as November in order to contain inflation which has surged in recent months. Spiking gas costs have exacerbated the situation and brought turmoil to the UK in September and is seen as a significant risk.

Asian equities recorded mixed performances over the quarter, partly driven by the differentiated pace of the vaccine rollout and mobility restrictions. Negative news regarding China's changing regulatory environment designed to achieve long run 'common prosperity' was another key driver of market returns in the region. China's education and technology sectors sold off sharply over the quarter and the government's unwillingness to bail out certain overleveraged companies in the property sector (e.g. Evergrande) also led to declines in this sector. Macro data pointed to a slowdown in China's economic growth. The country's zero tolerance Covid-19 approach and recent energy shortages have dampened activity. Rising fuel, raw material and transportation prices remain a concern in the region as input cost inflation reached a new high. China's local equity markets were down by 6% over the quarter.

Japanese equities recorded strong positive performance of almost 3% over the quarter. On the political front, the surprising news of Prime Minister Suga's intention to resign resulted in Fumio Kishida's election as the leader of the LDP. Global demand for Japanese exports has strengthened companies' earnings with further short-term fiscal stimulus promised by Prime Minister Kishida. After a slow take-up of the vaccine rollout, the continuation of stringent Covid-19 measures program has sustained strong momentum with most of the population having been fully vaccinated. In terms of policy, rates remaining unchanged during the September Bank of Japan meeting.

Availability

Product name	APIR
Flexible Lifetime Investment**	AMP0841AU
Flexible Lifetime Investment (Series 2)**	AMP1401AU
AMP Flexible Lifetime Super	AMP0466AU
AMP Flexible Super - Retirement account	AMP1336AU
AMP Flexible Super - Super account	AMP1465AU
CustomSuper	AMP0466AU
Flexible Lifetime - Allocated Pension	AMP0622AU
Flexible Lifetime - Term Pension	AMP0911AU
SignatureSuper	AMP0788AU
SignatureSuper Allocated Pension	AMP1140AU

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