

Future Directions Emerging Markets

Quarterly Investment Option Update

30 September 2021

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	96.35
Listed Property and Infrastructure	0.55
Cash	3.10

Sector Allocation	%
Information Technology	24.75
Financials	17.48
Consumer Discretionary	12.31
Materials	10.22
Communication Services	8.73
Industrials	6.04
Consumer Staples	5.54
Health Care	4.28
Energy	3.45
Cash	3.10
Utilities	2.97
Real Estate	1.16

Top Holdings	%
TSMC	6.92
Tencent Holdings Ltd	5.13
Samsung Electronics Co Ltd	5.10
Alibaba Group Holding Ltd	2.58
Infosys Ltd	1.91
Vale SA	1.21
CHINA LONGYUAN	1.18
China Construction Bank Corp	1.15
Hana Financial Group Inc	1.15
Sberbank of Russia PJSC	1.12

Region Allocation	%
Emerging Asia	75.97
Emerging Europe	6.81
Latin America	5.54
Middle East & Africa	4.78
Cash	3.10
Developed Asia x Aus x Jpn	2.47
Europe ex UK	0.67
United Kingdom	0.56
North America	0.09
Others	0.01

Fund Performance

The Fund posted a negative return and modestly underperformed its benchmark over the September quarter. All three of the Fund's underlying managers posted negative returns, but Schroder strongly outperformed the benchmark. The Fund continues to post strong positive returns over the longer term and has outperformed its benchmark over 1, 2, 3 and 5 years, and since inception. (All returns are before fees.)

Country allocation made a positive contribution to relative returns over the period. The main contributors were underweight exposures to China and Brazil, and an overweight exposure to Taiwan. An exposure to US dollars also made a significant positive contribution as the Australian dollar depreciated. The main detractors were underweight exposures to Saudi Arabia and Indonesia, and an overweight exposure to South Korea.

Sector allocation also made a positive contribution to relative returns. The main contributor by far was an underweight exposure to consumer discretionary, while the main detractors were underweight exposures to energy and financials.

Stock selection detracted from relative returns, mainly due to positions in financials and materials stocks, while positions in consumer discretionary and information technology stocks contributed positively to relative returns.

The main individual detractor was an underweight position in Indian multinational conglomerate Reliance Industries which climbed (+24.2%) as its earnings continued to recover and there was optimism pertaining to its retail and digital business as well as its focus on 'green' energy. Other detractors included an underweight position in Russian majority state-owned natural gas company PJSC Gazprom, which rallied (+39.1%), and an overweight position in Brazilian mining giant Vale, which fell (-29.8%) over the period.

The main individual contributor was an underweight position in Chinese internet behemoth Alibaba Group, which continued to fall (-33.0%) amid a regulatory crackdown by Chinese authorities on the technology sector. Other positive contributors included an overweight position in Chinese wind power company China Longyuan Power Group which soared (+49.1%), and an underweight position in Chinese electric vehicle manufacturer NIO, which sank (-30.4%) over the period.

Market Review

Global shares posted another quarter of gains. Through July and August, markets were buoyant, driven by global reopening and the ongoing recovery. Economic and corporate fundamentals remained solid, particularly in the US, where earnings generally surprised on the upside through reporting season and strong US employment data was released. Central banks, including the US Federal Reserve and European Central Bank were also generally quite dovish, suggesting they won't be rushing to remove stimulus given the current climate.

However, in September a marked turn in sentiment was evident, emanating from a combination of factors including inflation concerns, volatile commodity prices reflecting slowing Chinese demand for steel, and global supply issues creating turbulence for energy resource prices. Adding further to the bearish turn in sentiment were solvency concerns surrounding a major Chinese property developer, China Evergrande Group, and the perceived threat of an international spill-over. In addition, the continued trend towards hawkish statements from some central banks and short-term fears of a US government shutdown due to the approaching debt ceiling also weighed on markets. Upcoming tax-hikes in the US added further to the list of worries. Despite all this, the global economy remains generally on track in its recovery. Corporate earnings are growing, social restrictions are being removed rapidly as populations are becoming vaccinated and countries are opening up.

Meanwhile, emerging markets fell, underperforming developed markets amid concerns about Chinese economic growth and regulatory risks, volatile commodity prices, vaccination challenges and inflation.

The Chinese market fell as investors remained concerned about the government's increased scrutiny of private-sector companies and became concerned about the solvency of China Evergrande Group. Most other Asian emerging markets rose only modestly due to the resulting uncertainty, although India advanced strongly due to its supportive monetary policy and expectations of a substantial rebound in growth as the economy reopens. Indonesia also rose strongly. In Latin American markets, Argentina and Columbia rallied, but Brazil slumped amid rising political uncertainty and a fall in commodity prices, most notably iron ore as Chinese imports declined. European emerging markets generally gained, particularly the Czech Republic, Hungary and Turkey as their economies bounced back. Russia rallied due to its dominant energy sector and South Africa faced headwinds as civil unrest flared.

Outlook

The economic backdrop remains complicated. Uncertainty over the persistency of inflationary pressures, ongoing

stimulus packages, the US Federal Reserve's timeline for tapering and stretched valuations in some areas, continue to muddy the interpretation of future events, with a fluid 'risk on'/'risk off' bias. Thus, the medium-term outlook for global shares remains difficult to predict. The environment is further complicated by some supply-demand mismatches, where it is difficult to ascertain with any degree of certainty what will be short-term and what will prove to be more secular in nature. Likely tax hikes in the US will also impact US companies' earnings. With changing consumer dynamics, many companies are expected to face challenging conditions for some time yet, while stronger businesses are likely to emerge post the vaccine implementation with gained market share. Despite some inflationary concerns, governments generally continue to implement supportive monetary and fiscal programmes to ease short-term economic stress. The hope is that economies will be resilient enough to return to sustainable growth relatively quickly. Although the short-term environment remains uncertain, we believe the long-term trend will remain to the upside. Investors 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*
SignatureSuper Select	AMP0799AU

*Closed to new investors

**Closed to new and existing investors

Contact Details

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267



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