Blackrock Scientific Hedged International Share

Quarterly Investment Option Update

30 June 2022

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 amp.com.au/performance

Investment Option Overview

Investment category	Global Shares
Suggested investment timeframe	5 years
Relative risk rating	7 / Very high
Investment style	Core (Hedged)

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100	99.2
Cash	0	0.8

Regional Allocation	%
United States	69.5%
Japan	4.7%
Canada	4.1%
United Kingdom	3.7%
Germany	3.7%
France	2.7%
Netherlands	2.1%
Switzerland	1.6%
Ireland	1.5%
Hong Kong	1.0%
Norway	0.9%
Denmark	0.9%
Israel	0.8%
Sweden	0.6%
Italy	0.6%
Spain	0.5%
Finland	0.5%
Belgium	0.2%
Austria	0.2%
Singapore	0.2%
Portugal	0.1%
Luxembourg	0.1%
New Zealand	0.0%

Sector Allocation	%
Information Technology	23.3%
Health Care	16.0%
Financials	12.8%
Industrials	8.6%
Communication Services	7.3%
Consumer Discretionary	7.1%
Consumer Staples	6.9%
Energy	6.4%
Utilities	4.2%
Materials	4.2%
Real Estate	2.3%
None	0.8%

Top Holdings	%
APPLE INC	5.0%
MICROSOFT CORP	4.8%
JOHNSON & JOHNSON	1.9%
ALPHABET INC CLASS A	1.8%
ALPHABET INC CLASS C	1.7%
JPMORGAN CHASE & CO	1.6%
EXXON MOBIL CORP	1.6%
VISA INC CLASS A	1.5%
BANK OF AMERICA CORP	1.3%
AMAZON COM INC	1.3%

Portfolio Summary

The MSCI World Ex Australia Index declined 8.4% in unhedged AUD terms and 15.1% in fully hedged to AUD terms in Q2 2022.

The second quarter of the year was marked by volatility, with equities and fixed income selling off on the back of recessionary concerns, high inflation, and tightening financial conditions. Global equities finished the quarter down 15.5%, with Emerging Markets outperforming Developed Market counterparts. Fixed income markets were challenged by higher yields particularly at the start of the quarter, before reclining downwards towards the end of June amidst concerns that policy tightening may hurt the economy.

In the US, the S&P 500 Index declined by 16.1% over the quarter, and by 8.3% over the month of June (in local currency terms). All sectors, including Energy, declined over the month as growth concerns weighed on investor sentiment.

The Federal Reserve (Fed) increased the policy rate by 125bps over the second quarter, as the Fed continues to battle with tightening labour markets and elevated inflationary readings. Headline inflation accelerated further in May, rising 8.6% over the year, with gasoline, food and shelter prices contributing to the increase. While the unemployment rate remained at 3.6% for the third month in a row, consumer confidence index fell sharply as consumer resiliency was tested by the future prospect of persistent inflation. Meanwhile, the Manufacturing PMI index declined from 57 to 52.7 in June, marking the slowest growth in factory activity since July 2020. Market-based interest rate expectations re-priced downwards towards the end of June, reflecting concerns that central banks may be stalling the restart with higher policy rates.

European equity markets represented through the Euro Stoxx 600 Index declined by 10.1% in the second quarter, and by 9.3% in June (in local currency terms) as ongoing concerns around Europe's heavy reliance on Russian oil and natural gas continued to raise risks of economic deceleration.

Within the European block, annual flash headline inflation hit an all-time high of 8.6% in June. Rising food and energy prices, alongside growing core inflation readings, have continued to add to concerns that high inflation may become entrenched in the region. The Euro Area economic sentiment slipped in May as consumers saw increasing headwinds to the outlook. The European Central Bank (ECB) further reiterated the possibility of a rate hike in July and an exit to negative interest rates by the end of Q3.

While the UK equity market outperformed most other major Developed markets, it still declined by 3.7% over the quarter and 5.5% over June (in local currency terms). The Bank of England (BoE) hiked rates by 50bps over the period as UK inflation soared to 9.1% in May, the highest reading in more than 40 years. The unemployment rate rose slightly to 3.8% in the three months through April, marking the first increase in over a year. Meanwhile, consumer confidence fell to its lowest historic levels as consumers battled with renewed economic fears and experienced the squeeze from negative real wage growth. The deterioration in sentiment is in spite of the Chancellor's announced fiscal measures to help offset rising household costs alongside a '25% Energy profits Levy' on UK energy firms to ease the cost of living crisis. The UK manufacturing PMI fell further to 52.8 in June, as new orders contracted at the fastest rate in two years.

Asian equities rebounded over the quarter, driven by the rebound in activity across China. Specifically, Chinese equities, as represented by the CSI 300, rose 7.3% in the second quarter, after declining by over 15% in the first quarter. Economic data within China have appeared to bottom, with retail sales and industrial production figures for May surprising on the upside. The official manufacturing PMI rose to 50.2 in June, marking the first time it has crossed the 50 expansionary threshold since February. Chinese banks cut key interest rates for long-term loans with the five-year loan prime rate reduced to 4.45% alongside more than 140 billion yuan in tax relief offered to companies and consumers to offset the heavy impact of COVID lockdowns.

Japanese equities, as represented by the TOPIX Index, declined by 3.7% over the quarter and by 2.1% in June (in local currency terms), as the economy battles with slowing manufacturing growth and rising inflation. The Bank of Japan (BOJ) continued to maintain its stance of defending its yield target despite core consumer prices rising 2.1% y/y in May, ahead of the BOJ's 2% target.

Strategy Commentary

The strategy outperformed its benchmark as Value-oriented signals benefited, with quality taking a backseat. Sentiment signals also positioned successfully again over Q2, with significant alpha coming broadly from the strategy's

Macro Thematic signals as well.

Fundamental signals overall scored mildly positively due to a contribution from Value-oriented metrics. Measures observing balance sheet ratios, preferring companies with positive Value characteristics, were among the most successful for the model. A signal betting against stocks with high skewness of returns again benefited, with May's trend within European financials continuing to play well as policy shifts continue to drive reversals. In a theme that played out throughout the quarter, quality signals detracted, albeit mildly. Despite success from some traditional Earnings Quality insights, like one preferring companies with lower levels of equity dilution, other signals preferring firms demonstrating innovations in green technology and low levels of ESG controversies detracted.

Sentiment signals were strong contributors throughout Q2 with Trend-oriented signals in particular performing strongly. A newly introduced signal that tilts into industries based on observed performance in downturn environments also performed strongly.

Macro signals recovered meaningfully in May but stumbled in June, with the model correctly positioning for the policy normalization theme that played out in May. This played out especially through a continued successful underweight in Consumer Staples and an overweight to Energy names as inflation sensitivity continues to headline as one of the dominant drivers of markets. In June, rising concerns that policy tightening would ultimately choke growth, ran against positioning from contrarian stock selection insights and the broader pro-inflation / short duration stance expressed by Macro signals, which has persisted since the outset of the year. The strategy particularly faced pain from misalignment of its thesis of policy normalization as a single-minded policy view on inflation dominated markets.

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0839AU
Flexible Lifetime Investment (Series 2)	AMP1400AU
SignatureSuper – Term Pension Pension	AMP1139AU
SignatureSuper	AMP0787AU
SignatureSuper Allocated Pension	AMP1139AU

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