

Future Directions Emerging Markets

Quarterly Investment Option Update

31 December 2017

Aim and Strategy

To provide high returns over the long term, whilst accepting a higher level of volatility, through a diversified portfolio of international shares, focussing 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 Index on a rolling 3 to 5 year basis.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Availability

Product name	APIR
AMP Flexible Super – Retirement	AMP1350AU
AMP Flexible Super – Super	AMP1479AU
CustomSuper	AMP1103AU
Flexible Lifetime – Allocated Pension	AMP1105AU
Flexible Lifetime – Term Pension	AMP1109AU
Flexible Lifetime – Super	AMP1103AU
Flexible Lifetime Investment	AMP1117AU
Flexible Lifetime Investment (Series 2)	AMP1414AU
SignatureSuper	AMP1114AU
SignatureSuper – Allocated Pension	AMP1105AU

Investment Option Overview

Investment category	Specialist Equities
Suggested investment timeframe	7+ years
Relative risk rating	High
Investment style	Multi-Manager

Asset Allocation	Benchmark	Range (%)
International shares	100	90-100
Cash	0	0-10

Top Ten International Shares Exposure	%
Tencent Holdings Ltd	5.38
Samsung Electronics Co Ltd	5.34
TSMC	3.89
Alibaba Group Holding Ltd	3.52
China Construction Bank Corp	1.52
KB Financial Group Inc	1.44
Bank of China Ltd	1.35
PING AN	1.32
Sberbank of Russia PJSC	1.07
Vale SA	1.05

Industry Exposure	%
Information Technology	27.38
Financials	23.42
Materials	10.09
Energy	7.56
Consumer Discretionary	7.02
Industrials	4.52
Consumer Staples	4.31
Cash	4.09
Telecommunication Services	3.38
Real Estate	2.85
Utilities	2.74
Health Care	2.63
Others	0.00

Regional Exposure	%
Asia	67.54
Latin America	9.45
Europe	8.92
Middle East & Africa	5.63
Others	4.37
Cash	4.09

Portfolio Summary

- > The Fund posted a strong positive return in the December quarter, but underperformed the benchmark (before fees).
- > All three underlying managers recorded positive returns, whilst one outperformed the benchmark.
- > Emerging markets outperformed their developed markets peers during the quarter.

Investment Option Commentary

The Fund posted a strong positive return during the December quarter, but underperformed the benchmark (before fees). All three underlying managers recorded positive returns, with Schroders producing the better results to outperform the benchmark, whilst Investec and Lazard underperformed.

At the country level, the allocation impact was marginally positive (excluding cash held). Underweight allocations to poorer performing markets Brazil and Mexico were the major contributors to performance. Conversely, underweight exposures to South Africa and India and being overweight United Arab Emirates were major detractors, with the Fund's cash position significantly crimping returns as markets rose strongly during the period.

From a sector allocation perspective, Fund returns were enhanced by being overweight to information technology and materials and an underweight allocation to the industrials sector, whereas underweight allocations to the consumer discretionary and consumer staples sectors were the main detractors from relative returns.

Security selection overall detracted from returns during the quarter. The largest single stock detractor was an underweight holding in South African media group Naspers (+29%), which outperformed due to its holding in China's Tencent, a company which is directly invested by the Fund. Other significant detractors included the Fund's overweight positions in Indonesian telecom PT Telekomunikasi (-6%), and Middle Eastern property developer Emaar Properties (-18%). The largest single contributor at the individual stock level came from not holding South African retail conglomerate Steinhoff International (-92%), which saw its share price sink during December after the CEO and Chairman resigned amidst accounting irregularities and questions on related party transactions (however, the Fund's returns were hampered somewhat by a position in recently listed Steinhoff Africa Retail which fell by -21% during the quarter). In addition, the Fund's overweight holding in South Korean financial KB Financial Group (+23%) and Chinese car manufacturer Geely Automobile (+23%) also contributed to returns.

Market commentary

Global equity markets saw yet another very strong quarter and were again accompanied by very low levels of volatility. Globally, conditions remain in somewhat of a sweet-spot, with robust economic growth and supportive financial conditions, even as the US (and others) raised interest rates. Global shares rose by 5.3%, as measured by the MSCI World ex Australia Net Index in local currency terms (the return was slightly stronger in Australian dollar terms due to currency movements). The US S&P 500 Total Return Index continued to climb through record-highs to close up 6.6% as corporate earnings remained strong and President Trump's proposed tax cuts continued to drive optimism. Most other major markets were also very strong, with Japan, the UK and China each rising in excess of 5%. However European shares lagged, ending the quarter close to flat. Emerging markets continued to outperform their developed markets counterparts as they benefited from the global pickup in trade and generally strong resource prices, with the MSCI Emerging Markets Accumulation Index closing up 5.7% (All figures are in local currency terms). South Africa was the best-performer, as the market reacted positively to the election of Cyril Ramaphosa to the head of the ruling ANC party. Conversely, underperformers included Mexico, which was impacted by ongoing concerns surrounding the NAFTA renegotiations, while Brazil also suffered as political tension weighed on returns early in the year.

Outlook

Although the US administration has been broadly positive for stocks, there has been considerable uncertainty regarding future actions, particularly before the signing into law of the tax reforms in late December and some continuing political uncertainty. However, following any short-term weakness, we still expect shares to trend higher over the next 12 months, helped by the synchronised pickup in global economic activity data and the flow-through to growth and corporate earnings. A major positive for emerging markets is the conjunction of re-invigorated governments, regulators and company management teams responding positively to the environment. Valuations are also supportive, remaining at a significant discount to developed markets.

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