Walter Scott Global Equity

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1625AU
AMP Flexible Super – Choice (Super)	AMP1616AU
CustomSuper	AMP1601AU
Flexible Lifetime – Allocated Pension	AMP1637AU
Flexible Lifetime – Super	AMP1601AU
SignatureSuper	AMP1607AU
SignatureSuper – Allocated Pension	AMP1631AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & Strategy: To achieve a long term (at least 5 to 7 years) total return before fees and expenses that exceeds the MSCI World ex-Australia Index in Australian dollars unhedged with net dividends re-invested. The portfolio invests primarily in shares of companies listed on stock exchanges around the world, but may also have some exposure to cash and derivatives (e.g. foreign exchange contracts to facilitate settlement of stock purchases). Derivatives will not be used to hedge, leverage or gear the portfolio. The portfolio adopts a 'buy and hold' strategy (approximately 40 to 60 stocks) to allow time for a company's earnings growth to translate into strong share price performance for investors. On average, 15% to 25% of stocks held will be turned over each year. Unlike a top-down investment approach which allocates stocks to country or industry sectors, the portfolio is constructed with a primary focus on stock-based analysis (bottom-up investment approach). As a result, both sector and geographic allocation will generally be significantly different from benchmark indices. As exposure to international assets is not hedged back to Australian dollars, investors will also be exposed to movements in exchange rates. Exposure to derivatives is not reflected in the ranges.

Investment category: Global Equities

Suggested Investment Timeframe: 5 – 7 years

Relative Risk Rating: High

Investment Style: Growth

Asset Allocation	Actual (%)	Range (%)
Global Equities	98.52%	90-100%
Cash	1.48%	0-10%

Holdings

Industry Exposure	%
Consumer Discretionary	18.02
Consumer Staples	8.81
Energy	6.80
Financials	3.09
Health Care	19.86
Industrials	6.56
Information Technology	26.49
Materials	4.21
Real Estate	-
Telecommunication Services	1.81
Utilities	2.88

Regional Exposure	%
Asia Ex Japan	5.97
Europe Ex Uk	18.88
Japan	8.59
North America	53.47
United Kingdom	5.05
Emerging Markets	6.56

Top Ten Securities	%
Aia Group Ltd	3.09
Keyence Corp	2.90
Taiwan Semicon Man	2.70
Eog Resources Inc	2.57
Microsoft Corp	2.47
Adobe Systems Inc	2.46
Fanuc Corp	2.38
Cisco Systems Inc	2.37
Nike Inc	2.35
Alphabet Inc	2.28

Market Commentary

At a sector level, the Fund's industrial holdings were strong performers and, leading their sector index, the largest relative contributors; Fanuc and Fastenal were two of the best performing companies in the Fund. Technology stocks such as Adobe Systems, Microsoft Corporation and Cisco Systems, were the largest absolute contributors. Greater than benchmark exposure to the weaker than average healthcare sector hurt relative performance, however the Fund's healthcare holdings, such as Essilor International and Novo Nordisk, led their sector index and more than offset this relative loss.

From a regional perspective, the Fund's Japanese holdings were key performers and notable relative contributors, with Fanuc and Shin-Etsu Chemical amongst the largest individual contributors. US companies were the biggest absolute and relative contributors, with NIKE the strongest performing stock in the Fund.

Investment Option Commentary

Stock Comments

Fanuc has delivered impressive results. As a leader in robodrills, they delivered a 69% year-over-year increase in revenues from the relevant segment last quarter accounting for about 25% of the company's total sales. Capacity expansion has put Fanuc in a strong competitive position. Defending against competition and a focus on quality, reliability and speed, Walter Scott remain reassured by this dynamic, quality company. Fanuc remains well positioned over the long term to capture increasing market share within the $100bn automation market globally.

Strong fundamental growth was mirrored in significant share price appreciation for Adobe. Adobe's fourth quarter fiscal results marked a strong finish to the year and momentum in the business is strong as we go into next year. The dynamics of a bigger Creative Cloud subscription base coupled with a broader product portfolio to cross-sell and favourable pricing all speaks to a combination of robust revenue and faster earnings growth in FY18 as margins of the business trend higher.

It has been a very difficult operating environment for the global retail sector, with difficult weather patterns compounding the challenges facing bricks and mortar stores from the growth of online shopping. H&M has been impacted by these trends resulting in disappointing sales growth, with its latest fourth quarter report revealing local currency sales declining 2%. High inventory levels will result in price discounting, further pressurising the gross margin in the short term.

Despite ongoing uncertainties surrounding the outlook for the HCV franchise, Gilead's HIV business continues to perform well. In 2017 the company acquired Kite Pharma representing its first foray into the exciting new frontier of cancer therapy called CAR-T. In the near term the market may remain focused on the weakness in HCV, however longer term Walter Scott expect Gilead's future growth drivers to gain more attention.

Portfolio Activity

Suncor Energy was sold in Q4 2017. The company was a long standing investment for Walter Scott, held since the early 2000s. Towards the end of 2011 it became clear that the business had been grown too quickly and as a result the company was experiencing major operational and reliability issues. However, under the new leadership of Steve Williams the company put in place a plan to become a more cost efficient, reliable and cash flow generative company. This plan has now been fulfilled and the improvement in the operational performance of the business has been impressive. The company is also on the cusp of first production for two of its key growth projects (Fort Hills and Hebron). However, the Research team at Walter Scott felt both of these developments have been well discounted by the market and adequately reflected in the company's share price valuation. The company's recent outperformance versus its peer group has also been noteworthy. Furthermore, looking forward there is a question mark about what will underpin Suncor's future production growth beyond the next couple of years.

Outlook

There are several big questions hanging over global markets that will likely determine the near-term direction of travel for equities. How will the passing of the latest tax reform bill in the US play out? Will the Fed's and European Central Bank's fiscal policies continue to diverge? How will the ongoing political uncertainty surrounding Brexit, Trump's presidency, North Korea and the Middle East impact markets? Will the momentum in global economic growth be maintained?

Walter Scott candidly admit that knowing the answers to these questions is beyond their capability. But believe in their ability to pick companies that are in control of their own destiny. Companies in the Fund exhibit industry-leading profitability, returns on capital and balance-sheet strength. They're aligned to powerful long-term megatrends such as automation, big data, the "internet of things", artificial intelligence, urbanisation and ageing demographics to name just a few. So, while short-term market gyrations are incredibly difficult to predict, Walter Scott have conviction that the aforementioned characteristics will help the Fund generate highly satisfactory returns over the long term.