# BlackRock Scientific International Share

Quarterly Investment Option Update

30-June-2018

## Availability

| Product name | APIR |
|---|---|
| AMP Flexible Super – Choice (Retirement) | AMP1336AU |
| AMP Flexible Super – Choice (Super) | AMP1465AU |
| CustomSuper | AMP0466AU |
| Flexible Lifetime – Allocated Pension | AMP0622AU |
| Flexible Lifetime – Investments (Series 1) | AMP0841AU |
| Flexible Lifetime – Investments (Series 2) | AMP1401AU |
| Flexible Lifetime – Super | AMP0466AU |
| Flexible Lifetime – Term Pension | AMP0911AU |
| SignatureSuper | AMP0788AU |
| SignatureSuper – Allocated Pension | AMP1140AU |

## 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.

## Contact Us

**Web:** www.amp.com.au

**Email:** askamp@amp.com.au

**Phone:** 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

## Overview

**Aim & Strategy:** To provide returns before fees, that exceed the MSCI World (ex-Australia) Index (unhedged to the Australian dollar with net dividends reinvested), over rolling 3 year periods, while maintaining a similar level of investment risk to the index. Investment risk is managed by diversifying across the world's developed countries and currencies, and by holding the shares of a large number of companies within each country. This option is not hedged to the Australian dollar.

**Investment category:** Global equities

**Suggested Investment Timeframe:** 7+ years

**Relative Risk Rating:** High

**Investment Style:** Style neutral

| Asset Allocation | Actual (%) | Range (%) |
|---|---|---|
| International shares | 99.0 | 99-100 |
| Cash | 1.0 | 0-1 |

### Holdings

| Industry Exposure | % |
|---|---|
| Consumer Discretionary | 14.4% |
| Consumer Staples | 8.0% |
| Energy | 5.6% |
| Financials | 14.2% |
| Health Care | 14.8% |
| Industrials | 10.6% |
| Information Technology | 20.3% |
| Materials | 4.3% |
| Real Estate | 2.3% |
| Telecommunication Services | 2.9% |
| Utilities | 1.6% |
| None | 1.0% |

| Regional Exposure | % |
|---|---|
| United States | 57.7% |
| Japan | 7.3% |
| United Kingdom | 4.9% |
| Germany | 4.9% |
| France | 4.4% |
| Switzerland | 2.8% |
| Canada | 2.8% |
| Netherlands | 2.6% |
| Sweden | 2.4% |
| Spain | 2.1% |
| Norway | 1.8% |
| Italy | 1.7% |
| Ireland | 1.1% |
| Cash | 1.0% |
| Finland | 1.0% |
| Denmark | 0.5% |
| Hong Kong | 0.3% |
| Austria | 0.2% |
| Belgium | 0.2% |
| Singapore | 0.1% |

| Top Ten Securities | % |
|---|---|
| MICROSOFT CORP | 2.3% |
| APPLE INC | 1.7% |
| JOHNSON & JOHNSON | 1.6% |
| AMAZON COM INC | 1.5% |
| MASTERCARD INC CLASS A | 1.4% |
| CITIGROUP INC | 1.3% |
| ROCHE HOLDING PAR AG | 1.1% |
| MCDONALDS CORP | 1.1% |
| CONOCOPHILLIPS | 1.1% |
| HUMANA INC | 1.0% |

## Market Commentary

The MSCI World Ex Australia Index rose 5.53% in unhedged AUD terms and 3.62% in fully hedged to AUD terms in the second quarter of 2018. Unhedged returns were higher than the hedged returns as the Australian dollar depreciated against most major currencies.

Most global equity markets trended higher in the first two months of the quarter, but declined towards the end of June as concerns of global trade tensions resurfaced, especially between the US and China. While there were some sporadic episodes of market volatility, equity volatility measures retreated from their February highs. Overall performance was mixed across countries. Developed market equities generally finished the quarter higher, while emerging market equities dropped close to 10%.

US equities continued their upward trajectory despite facing some headwinds, with the S&P 500 rising nearly 3% in the second quarter of 2018. US corporate earnings kept rolling in on the positive side. The recent tax cuts have helped many US companies post their best earnings growth in years. This is reflected in the sharp spike in
analysts' earnings per share (EPS) estimates for S&P 500 companies. Year-over-year EPS growth for America's largest companies was above 20%, the highest level since the third quarter of 2010. However, while fundamentals are strong in the US, trade tensions and the speed at which the US Federal Reserve signalled to raise rates created uncertainty amongst investors. In June, the Federal Reserve voted to raise interest rates for the second time in 2018. The Federal Open Market Committee (FOMC) unanimously voted to increase the federal funds rate by 25 basis points to 1.75% to 2%, as widely expected. The market implied probability for four US rate hikes in 2018 increased
Somewhat after the June FOMC meeting. Central bank meetings in other countries showed growing divergence in monetary policy. The European Central Bank (ECB) signalled that interest rates would remain unchanged for at least another 12 months in the Eurozone. The Bank of Japan announced no change to its ultra-accommodative policy.

Outside of the US, macro data suggests that growth momentum may have started to weaken somewhat. The Eurozone experienced a first quarter slowdown and economic activity data also came in on the weaker side. Furthermore, concerns about political instability in Italy and Spain covered the headlines in May, which reignited the debate on rising populism in Europe and its threat on the European Union.
Nonetheless, European equities proved to be resilient and generally recorded positive returns over the quarter, with the Stoxx Europe 600 Index gaining 2.4%. In Japan, data releases showed that local GDP declined 0.2% in the first quarter of 2018, while market forecasts indicated a flat result. Fourth quarter GDP growth was revised down heavily from 0.4% to 0.1% – indicating that Japanese economic growth is less than previously assumed. The Japanese TOPIX finished the quarter slightly higher.

Emerging market (EM) equities were the key underperformer over the quarter, declining approximately 10%. A stronger US dollar, global trade tensions and re-emerging geopolitical risks acted as major headwinds for EM equities. In addition, rising US short-term rates and worries about external debt loads in Argentina and Turkey weighed on investor sentiment. In China, recent industrial production and retail sales data were underwhelming which also did not provide any relief for EM assets. Shanghai's benchmark equity index plunged to its lowest level in two years. Chinese equities have now fallen 20% from their January peak, which is often classified bear market territory.

## Investment Option Commentary

The international stock selection strategy finished lower over the quarter in active space, though the rolling 12 month performance remained strong. At the insight group level, Momentum and Quality were positive, whilst Sentiment and Valuation insights were negative. Much of the detraction came from poor overall positioning in North America and Europe, whilst Japan contributed modestly. Cross Border Thematics also detracted in the US, along with Sentiment and Momentum. Valuation in Europe was poor, though Momentum insights contributed. At a sector level it was poor performance in Consumer Discretionary and Industrials in both Europe (overweights) and North America (underweights), along with underweights in US Energy names that detracted most. The best performing sector was Consumer Staples, mainly from European names.

Positive contributors to performance included overweight positions in Twitter and Adobe. Twitter posted its second consecutive quarterly profit supported by revenue growth across all its major products and geographies, as well as better-than-expected profitability. A number of insight groups were favourable including Momentum and Cross Border Thematics, leading to the small overweight position. During the quarter software company Adobe announced a significant stock repurchase program, the acquisition of an e-commerce platform provider, and increased quarterly revenue numbers. Favourable Cross Border Thematics, Quality and Sentiment contributed to the overweight position.

Detractors from performance included overweights in Deutsche Lufthansa and BE Semiconductor Industries. Deutsche Lufthansa missed guidance for the previous quarter, which the airline group attributed to one-off costs associated with the acquisition and integration of another carrier. On the whole passenger numbers and utilisation increased as the company posted its best result at its AGM. The overweight was driven by positive Sentiment, Momentum, and Valuation. BE Semiconductor Industries announced a solid set of numbers, helped by a tailwind of developments in technology, however they also flagged a slowdown in production due to increased capacity added last year and a possible downturn in the market. The modest overweight was a result of favourable Sentiment, Quality and Cross Border Thematics.

## Outlook

Market sentiment has shifted markedly. 2017 was a year of upside growth surprises and muted inflation – and unusually low volatility. That set the stage for outsized risk-adjusted returns across markets. Fast forward to 2018: sentiment on many of these key market drivers has shifted. The growth picture is still bright overall. Inflation risks look more two-way, and financial conditions are tightening as US rates rise. Monetary policy is shifting, with the Fed pushing on with normalisation and the European Central Bank (ECB) set to wind down its asset purchases by year-end. The Bank of Japan looks poised to keep its ultra-easy policy on hold as it awaits a sustainable increase in inflation. The big change in 2018: a rise in macro uncertainty, with potential trade wars and US overheating risks.

### Themes

BalckRock’s base case sees strong US growth extending positive spillover effects to the rest of the world, sustaining the global economic expansion. Yet the range of possibilities for the economic outlook has widened. On the downside: trade war and overheating risks. On the upside: US stimulus fuelled surprises. This greater uncertainty – along with rising interest rates – has contributed to tightening financial conditions and argues for building greater resilience into portfolios. A rising US dollar squeezes dollar-funded entities including emerging markets (EMs) with large external debt loads.