Schroder Global Active Value

Quarterly Investment Option Update

30-June-2018

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1377AU
Flexible Super – Choice (Super)	AMP1466AU
CustomSuper	AMP0859AU
Flexible Lifetime – Allocated Pension	AMP0872AU
Flexible Lifetime – Investments (Series 1)	AMP0844AU
Flexible Lifetime – Investments (Series 2)	AMP1402AU
Flexible Lifetime – Super	AMP0859AU
MultiFund Flexible Income Plan	AMP0986AU
Signature Super	AMP0967AU
Signature Super – Allocated Pension	AMP1141AU

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 obtain exposure to global equities through active investment in a diversified portfolio of equity and equity related securities of companies worldwide excluding Australia. The performance benchmark is the MSCI World (ex-Australia) Index in Australian dollars. Opportunities are reviewed from the widest possible investment universe available and recognise that a "Value" oriented style (focusing on companies whose shares appear underpriced) is a high returning long term investment strategy. With an all capitalisation exposure, the investment universe comprises of both developed and emerging markets. To determine how much of a stock to buy, a quantitative assessment is made of the probability of the stock outperforming its peer group and higher allocations are made to those stocks with superior fundamentals. Each stock's liquidity is also assessed and the portfolio has a limit in any one stock at the time of investment in order to ensure a highly diversified portfolio. The portfolio is unhedged to Australian dollars.

Investment category: Global equities

Suggested Investment Timeframe: 7+ years

Relative Risk Rating: High

Investment Style: Value

Asset Allocation	Actual (%)	Range (%)
Global Equities	98.3%	90-100%
Cash	1.7%	0-10%

Holdings

Industry Exposure	%
Health Care	13.9
Banks	13.6
Consumer Discretionary	12.7
Information Technology	9.8
Consumer Staples	9.0
Industrials	8.7
Energy	7.6
Materials	7.1
Insurance & Asset Manager	6.7
Telecommunication Services	5.8
Real Estate	2.1
Utilities	1.4
Cash	1.7

Regional Exposure	%
North America	42.4
Continental Europe	17.3
Emerging Markets	13.0
Japan	12.5
United Kingdom	9.7
Pacific ex Japan	3.5
Cash	1.7

Top Ten Securities	%
Roche	0.79
Pfizer	0.79
Kimberly Clark	0.78
Legal & General	0.77
Procter And Gamble	0.76
Amgen	0.75
Johnson & Johnson	0.75
Astellas Pharma	0.75
Aflac	0.74
Ntt Docomo	0.74

Market Commentary

In June, US equities were slightly higher but equity markets in most other regions declined as trade war concerns hurt risk appetites. In the US, the Federal Reserve ("Fed") raised the target rate for Fed Funds by 0.25% as expected and marginally increased its 2018 forecasts for growth and inflation. A recovery in retail sales helped lift consumer discretionary names in June. However, the broader escalation in trade sanctions did sour risk appetites and lift traditionally defensive sectors, such as consumer staples, while financials and industrials were weaker. Bond proxies, namely US utilities and real estate stocks, also did well.

Continental European equities saw negative returns in June. Consumer discretionary stocks fared particularly poorly with auto stocks coming under pressure given the trade sanction uncertainty, as US President Trump threatened tariffs on imported vehicles. The European Central Bank announced that it expects to end its quantitative easing programme in December 2018 and added that interest rates will remain at current levels through the summer of 2019.

UK equities failed to make further progress over June, following strong performance over April and May. There was a rotation towards more defensive areas of the market amid a general increase in risk aversion, given rhetoric around a possible global trade war. Asian-exposed financials and miners underperformed, reflecting rising fears about the outlook for the region.

Emerging market equities were firmly down in June with US dollar appreciation and global trade tensions the key headwinds. Trade uncertainty also contributed to weakness in a number of Asian emerging markets, particularly China, but also affected South Korea.

Global equities advanced in the second quarter of 2018, as equity markets responded positively to economic and earnings data despite the ever-present geopolitical risk.
Central bank policy remained a focus for investors. As expected, the Fed raised the target rate for Fed funds by 0.25%, while the European Central Bank announced that it expects to end its quantitative easing programme in December 2018 and that interest rates will remain at current levels through the summer of 2019.

In the US, positive earnings momentum and supportive economic data outshone the China-US trade posturing to lift equities. Elsewhere, developed markets posted a positive quarter, with the UK in particular rising sharply as investors reduced their underweight in the country. However, markets were not immune to President Trump's protectionist rhetoric, as threatened tariffs on imported vehicles impacted the auto industry, notably in Europe. Emerging markets fell over the period as US dollar strength and escalating trade tensions proved a headwind.

From a sector perspective, technology and consumer discretionary stocks continued their strong run from the first quarter, comfortably outperforming most other sectors. This was largely driven by the "new economy" cohort of stocks (in particular the FAANGs – Facebook, Apple, Amazon, Netflix, Google), resulting in momentum and growth once again the dominant market drivers. The only sector to better them was energy, which benefited from further increases in the oil price.

Investment Option Commentary

June proved a challenging month for global equity markets as concerns over a trade war hurt risk appetite. As such, the manager saw somewhat of a shift in market leadership with a rotation towards the more defensive sectors. However, at an individual stock level, many of the same mega cap internet companies that have dominated all year continued their strong run. As such, the Global Value strategy underperformed the indices.

The largest detractor was the technology sector where the overweight positions in US semiconductor names detracted as the overall sector was negative over the month. Meanwhile, not holding a number of expensive US software companies also weighed on relative performance.

The strategy suffered from positioning within the consumer discretionary sector, where not holding Amazon and Netflix –

two of the top performing US stocks YTD – detracted. Overweight positioning in auto parts companies also lagged as the industry sold off due to President Trump's threatened tariffs on imported vehicles.

The materials exposure detracted as commodity prices dropped notably in June, while the longstanding underweight to real estate and utilities also proved a headwind as bond proxies rallied.

The largest positive contributor came from the overweight exposure to the consumer staples sector, which was the best performer across global markets in June having had a difficult year so far. Schroder's favoured US home product and food & drink holdings added most value.

The fund's underweight positions in the industrials sector, particularly within the US, proved beneficial as the sector was the worst performer of the month, as did selective positioning within the energy sector as the oil price rallied. The positions in Continental European pharmaceuticals continued to prove beneficial.

As momentum continued to dominate global markets, in particular within the technology sector, the second quarter proved a difficult environment for Value investing. Against this backdrop, the strategy underperformed the wider market, with a lack of exposure to the glamorous FAANG stocks being the primary detractor.

With technology's strong run of performance continuing, the underweight exposure to US software – where valuations remain prohibitive – weighed on returns. Not holding Facebook proved the most significant headwind, as the stock rebounded following Q1's sell-off. Similarly, a lack of exposure to index heavyweights Microsoft, Apple and Alphabet detracted.

The strategy suffered also from positioning within the consumer discretionary sector, where not holding Netflix and Amazon – two of the top performing US stocks year-to-date – was a headwind. The Continental European exposure also detracted, led by the fund's favoured positions in media and auto parts.

Positioning in financials, the fund's most significant exposure within the strategy, proved a headwind. Holdings right across the value spectrum were penalised, as the sector was the worst performer of the quarter.

On the positive side, the broad overweight in the energy sector proved beneficial as the oil price continued to rally through the quarter driven by demand dynamics and tensions in the Middle East.

Positioning within industrials, where there is an aggregate underweight position, added to returns as the sector was amongst the worst performers through Q2. The exposure to US and pan-European pharmaceutical names also contributed positively to performance.

The fund retains a diversified value exposure, finding opportunities across the full spectrum from deep value in financials and resources to high quality yield in consumer staples and healthcare. The fund maintains a low exposure in utilities and real estate, where it views valuation for most stocks as unattractive, particularly in the US.

The fund's most significant exposure remains financials and have added to positions over the quarter. This has been funded by some reductions across consumer discretionary (UK and US retail), healthcare (US providers and EU pharmaceuticals) and US technology. The other area that has seen a net increase in the exposure is consumer staples, primarily in the US.

In financials the fund aims to take advantage of opportunities right across the quality spectrum. Over the quarter, the portfolio has added to deep value opportunities in European and Asian banks. At the other end of the spectrum, the fund has a broad exposure to high quality companies trading on attractive valuations, particularly complex banks and life & health insurers within the US and UK. The fund has also added to its exposure in US simple banks where some usually high quality and relatively expensive names are now good value.

Attractive valuations remain across a range of high quality companies in three out of the four defensive sectors. In healthcare, the largest exposure remains US pharmaceutical companies and healthcare providers. In consumer staples, the fund has built up positions across a broad range of industries most notably in the US. Within telecoms, the portfolio maintains a particular focus on Asian integrated companies. Utilities remain overall unattractive.

Elsewhere, within resources, the fund retains a preference for higher quality value within chemicals, miners and larger integrated oil companies. Schroder has continued to add to new opportunities in the US and Europe within the industrial sector, although the overall weight to the sector remains broadly unchanged after some profit-taking within Japan.