Specialist Hedged International Share

Quarterly Investment Option Update

30 June 2018

Aim and Strategy

To provide a total return (income and capital growth), after costs and before tax, higher than the return from the MSCI World (ex-Australia) Accumulation Index (hedged back to Australian dollars) on a rolling 3 year basis, through investing in a diversified portfolio of international shares. The portfolio will normally invest up to 10% in cash. However, in certain market conditions the portfolio may hold higher levels of cash. This option aims to be fully hedged to Australian dollars.

Investment Option Performance

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

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0865AU
AMP Flexible Super - Retirement account	AMP1354AU
AMP Flexible Super - Super account	AMP1483AU
CUSTOM SUPER	AMP0865AU
Flexible Lifetime - Allocated Pension	AMP0876AU
Flexible Lifetime - Term Pension	AMP0926AU
Flexible Lifetime Investment	AMP1006AU
Flexible Lifetime Investment (Series 2)	AMP1418AU
METCASH SUPERANNUATION PLAN	AMP0865AU
Signature Super	AMP0953AU
Signature Super Allocated Pension	AMP1156AU

Investment Option Overview

Investment category	Global Equities
Suggested investment timeframe	5 - 7 years
Relative risk rating	High
Investment style	Multi-Manager

Asset Allocation	Benchmark	Range (%)
Global Shares	100	90-100
Cash	0	0-10

Top 10 International Shares Exposure	%
Alphabet Inc	2.39
Visa Inc	1.89
Microsoft Corp	1.72
Mastercard Inc	1.65
AbbVie Inc	1.65
Facebook Inc	1.59
WELLS FARGO & COMPANY	1.37
XPO Logistics Inc	1.30
Kraft Heinz Co/The	1.08
APPLE INC	1.02

Industry Exposure	%
Information Technology	24.76
Consumer Discretionary	13.73
Health Care	13.30
Financials	12.93
Industrials	8.72
Consumer Staples	6.98
Energy	5.85
Cash	5.12
Materials	4.14
Real Estate	1.71
Utilities	1.29
Telecommunication Services	1.05
Others	0.30
Other	0.12

Regional Exposure	%
North America	59.83
Europe ex UK	13.16
Japan	9.13
Asia ex Japan	5.62
Cash	4.85
United Kingdom	4.62
Others	2.14
Australasia	0.65

Portfolio Summary

> Despite a number of global concerns for investors throughout the June quarter, most markets climbed the ‘wall of worries’ to rise strongly.
> The Fund lagged the benchmark during the period before fees, with two of the five underlying managers beating the benchmark.
> Despite increased volatility, we still expect shares to trend higher over the next 12 months, helped by the synchronised pickup in global economic activity data.

Investment Option Commentary

The Fund lagged the benchmark during the June quarter before fees. All underlying managers delivered positive returns over the period, with American Century and Magellan outperforming the benchmark. Pleasingly, the Fund remains comfortably ahead of the benchmark (before fees) over longer time periods, including 1, 3 and 5 years, and since inception, on an annualised basis.

Country allocation detracted from relative performance. Allocations to emerging markets such as Russia and Brazil were the main detractors to returns, offsetting gains from underweights to Germany and Spain. The tactical cash position held by one of the underlying managers, particularly the US dollar cash balance, also had a negative impact on returns, given the strong run in developed market equities during the period. From a sector perspective, the Fund’s overweight allocation to information technology continued to add value, as did the overweight allocation to financials. The underweight exposure to energy was the main detractor given the strong performance in the sector over the period.

Stock selection in the Fund was marginally positive for performance during the period. An overweight position in US-based financial services companies Mastercard (+16.6%) and Visa (15.1%) were the largest individual contributors to Fund performance. Visa continues to rise on the back of strong revenue and free cash flow, resulting in a sharp increase in earnings per share. Mastercard’s valuation has also increased on the back of strong earnings expectations. Other contributors to returns included underweight holdings to US telecom AT&T (-5.6%).

The largest single detractor from performance over the period was the underweight position in US online retailer Amazon (+21.9%) which continued to outperform following the release of stellar earnings for the December quarter during the period. The company announced a profit of nearly US$2 billion, the largest in its history. Investor sentiment for the company ended the quarter on a positive despite US President Trump’s threat to curb what he sees as its unfair competitive advantage over bricks-and-mortar retailers. Other detractors included an overweight position in US manufacturer Arconic (formerly Alcoa, -23.2%) and an underweight position in US-based technology company Apple (+14.9%).

The Fund’s hedged exposure to the Australian dollar had a negative impact on total returns, primarily due to the Australian dollar’s depreciation against the US dollar during the quarter.

Market commentary

Despite a number of global concerns for investors throughout the June quarter, most markets climbed the ‘wall of worries’ to rise strongly. The MSCI World ex Australia Net Index finished the period higher by 3.4% in local currency terms. Concerns included negative US rhetoric towards Europe with the threat of tariffs on automotive imports, ongoing US/China counter-retaliatory tariff threats, early inflationary concerns in the US, currency concerns in emerging markets (EM) as the US dollar rose and subsequent concerns around the increasing real debt levels of many EM companies which hold their debt in US dollars. The MSCI Emerging Markets total return index was consequently down by 3.5%. China’s market particularly suffered amid the US trade skirmishes, ending the period down by 10.6%. Meanwhile, the US S&P 500 total return index ended the period up 3.4%, as companies continue to grow their earnings and economic growth remains strong. The UK’s FTSE 100 total return index was extremely strong and reached record-highs in the June quarter, up 9.6% as the Sterling fell (leading to a significant increase in earnings for many UK-based international businesses), commodity prices rose and the Bank of England remained a little less hawkish than expected. (All figures quoted in local currency terms.)

Outlook

Although economic fundamentals remain broadly positive for stocks, the potential for a US initiated trade war has increased, resulting in increased volatility and uncertainty. However, at this juncture, unless trade war risks escalate significantly, 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. Although some election outcomes in the Eurozone have recently been decided, reducing uncertainty, there remain some unresolved tensions between member states which have impacted some European markets. Emerging market equities are likely to remain under pressure while the threat of a trade war remains and the US dollar remains strong. Japanese and individual European equities continue to be our pick to see the better performance in the current global macro-environment.

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