Aberdeen Standard Emerging Opportunities

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To provide investors with high capital growth over the medium to long term (3 to 5 years) by seeking exposure to emerging stock markets worldwide or companies with significant activities in emerging markets. The benchmark is the MSCI Emerging Markets Index. In seeking to achieve the objective, the investment manager may invest in securities which are not contained in the index used as the performance benchmark. This investment option primarily invests in a diversified portfolio of emerging market securities. The normal characteristics of this investment option are:

- low turnover - the average holding period is around 4 years
- significant divergence from the benchmark
- low cash allocations, and
- a beta less than or equal to one.

On occasions (such as where the purchasing costs of the investment can be reduced), a portion of the investment may be directly invested in other investment vehicles managed by other Aberdeen Group companies. This investment option does not generally borrow to invest and is not hedged to the Australian dollar.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Global Shares
Suggested investment timeframe	3 - 5 years
Relative risk rating	7 / High
Investment style	Specialist

Asset Allocation	Benchmark	Actual (%)
Emerging Markets Equities	100.0	98.4
Cash	-	1.6

Regional Allocation	%
Asia	71.1
Africa and Middle East	3.7
Emerging Europe	5.3
Latin America	17.9
UK	0.5
Cash	1.6

Sector Allocation	%
Energy	3.1
Materials	6.6
Industrials	1.7
Consumer Discretionary	8.9
Consumer Staples	7.5
Health Care	1.1
Financials	40.8
Information Technology	21.6
Telecommunication Services	2.3
Utilities	--
Real Estate	4.8
Cash	1.6

Top Holdings	%
Aberdeen Global Indian Eq Fund	13.0
Aberdeen Global China A Equity Func	7.3
Tencent Holdings	6.4
Samsung Electronics	6.3
TSMC	5.0
Ping An Insurance	3.1
AIA Group	2.6
Vale SA	2.6
Banco Bradesco	2.5
Astra International	2.2

Investment Option Commentary

From a country perspective, positioning in China, Indonesia and Mexico added the most to relative performance. The portfolio's lighter exposure to China proved beneficial, as the market sold off on concerns over Beijing's trade spat with Washington. What Aberdeen chose to hold in the mainland also did well. These included our more recent initiations, such as Ping An Insurance and China Resources Land, as well as the lack of exposure to Alibaba, which fell by more than 11% over the quarter. Taiwan Semiconductor Manufacturing Co performed well after it released positive forecast for its 7-nanometre advanced node ramp-up, with overall demand sustained by high performance computing, Internet of Things and healthy smartphone growth. Holdings in Indonesia aided performance with Indocement and Astra International rebounding after recent weakness. In addition, Thai cement maker Siam Cement was supported by a favourable outlook for both its petrochemical and cement businesses. Meanwhile, Mexico's recovery benefited portfolio holdings in Asur and Banorte.

Conversely, gains were capped by negative stock selection in India, which was rattled by signs of distress in the financial sector. The portfolio's quality stocks were unfortunately dragged down in the recent sell-off. Nevertheless, the market remained a key contributor to performance in the year-to-date, with Aberdeen's holdings faring well. In addition, Aberdeen Global – China A Share Equity Fund fell, in tandem with the weakness in the domestic market. Tencent, the Internet giant retreated on worries over its slowing profits and stricter regulations in the online game segment, one of its key businesses. Aberdeen continue to like the company for the quality of its ecosystem. Its dominance in gaming, coupled with its massive consumer reach via messaging app WeChat, adds to its solid business moat.

From a sectoral perspective, the key detractor was the underweight to energy, as oil prices continued to rally. However, this was largely mitigated by robust performances of holdings in the materials sector. Notably, Brazilian miner Vale was bolstered by rising iron ore prices.

Market Commentary

It was another volatile quarter for emerging markets amid escalating trade tensions between the US and China, as well as the US Federal Reserve's hawkish stance that underpinned the strengthening greenback. This worsened the economic woes in Turkey and Argentina, while also affecting other economies with substantial foreign-denominated debt, such as Indonesia, prompting the central bank there to tighten monetary conditions. Energy was the best-performing sector, as a host of supply shocks, such as Iran sanctions, the Venezuela crisis and bottlenecks in US shale production propelled energy prices to a four-year high.

Chinese equities and the yuan remained under pressure, as fresh rounds of US tariffs took effect. To counter trade worries and a slowing economy, the government injected liquidity into the financial system, increased infrastructure spending and reduced levies on more than a thousand goods from outside the US to compensate for costlier American imports.

Outlook

The outlook for emerging markets remains cautious, given the contagion risks that could afflict the asset class and trigger further sell-offs. While global trade relations improved in some areas, tensions between the US and China persist, threatening to upend the integrated global supply chain. Tightening monetary conditions in major economies and the rising US dollar, coupled with domestic political developments, could add to the uncertainty. Nevertheless, recovery across markets is expected to steady, as central banks tread lightly to keep inflation in check and ease currency pressures, while still supporting economic expansion. China's shifting focus towards sustainable growth and recent loosening policies should bolster its ability to weather external shocks and avoid a hard landing. Meanwhile, rebounding domestic consumption remains a key driver for Brazil and India. Against this backdrop, corporate earnings appear resilient, with many of our holdings boasting healthier balance sheets and intact long-term drivers. Looking beyond the short-term volatility, the Fund Manager stays confident in our holdings' potential, believing that their solid fundamentals will allow them to withstand future challenges and sustain their earnings momentum.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1531AU
AMP Flexible Super - Retirement	AMP1591AU
AMP Flexible Super - Super account	AMP1579AU
CustomSuper	AMP1531AU
Flexible Lifetime - Allocated Pension	AMP1543AU
Flexible Lifetime Investment (Series 2)	AMP2031AU
SignatureSuper	AMP1555AU
SignatureSuper Allocated Pension	AMP1567AU
SignatureSuper Select	AMP1555AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 7:00pm AEST)

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