

Blackrock Scientific International Alpha Tilts

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

To provide returns before fees that exceed the MSCI World ex-Australia Net TR Index (unhedged in AUD) by 2.5% to 3.0% pa over rolling three-year periods, while maintaining a similar level of investment risk to the index. The option utilises a combination of active stock selection strategies across international developed stock markets that aim for the best trade-off between returns, risk and costs.

Investment risk is managed by diversifying across many regions and countries and by holding the shares of a large number of companies within each industry. This option is not hedged to the Australian dollar. When derivative positions are established, they will always be backed by cash holdings and/or underlying assets. Derivative securities will not be used to leverage exposures.

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	7 years
Relative risk rating	6 / High
Investment style	

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	99-100	99.0
Cash	0-1	1.0

Regional Allocation	%
United States	65.0
Japan	7.2
United Kingdom	4.5
Germany	4.9
France	4.5
Switzerland	1.4
Canada	2.7
Netherlands	2.6
Sweden	1.1
Spain	0.6
Norway	0.7
Italy	1.8
Finland	0.9
Denmark	1.3
Hong Kong	0.2
Austria	0.1
Belgium	0.3

Sector Allocation	%
Consumer Discretionary	16.0
Consumer Staples	8.5
Energy	4.3
Financials	14.4
Health Care	12.8
Industrials	11.1
Information Technology	23.4
Materials	2.9
Real Estate	1.2
Communication	3.8
Utilities	1.5
None	0.1

Top Holdings	%
MICROSOFT CORP	2.9
APPLE INC	2.1
FACEBOOK CLASS A INC	1.8
AMAZON COM INC	1.7
CISCO SYSTEMS INC	1.4
CITIGROUP INC	1.3
MASTERCARD INC CLASS A	1.3
ROCHE HOLDING PAR AG	1.2
WALMART INC	1.2
BRISTOL MYERS SQUIBB	1.1

Portfolio Summary

The international stock selection strategy finished a positive quarter adding to positive performance over the last year. Momentum did well across all regions and was helped by Cross Border insights in Europe, the US and Japan.

Investment Option Commentary

The best performing region for the quarter was the US with gains made across a number of sectors including Energy, Consumer Discretionary, and Consumer Staples. At the other end of the scale, Europe detracted, mainly from overweight's in Industrials. From a sector point of view, Materials, Energy and Financials were all additive, whilst Industrials and Telecommunications detracted.

Positive contributors to performance included overweight positions in Lululemon Athletica and Cisco Systems.

Lululemon beat expectations by posting higher revenues and profits through the second quarter, and also raised guidance for the full year. Positive Momentum and Sentiment were the main drivers for the overweight position.

Cisco Systems recorded their highest revenue quarter led by hardware sales, with management also raising guidance. Most insight groups were positive, including Momentum, Sentiment, Quality and Cross Border Thematics, leading to the overweight position.

Market Commentary

The MSCI World Ex Australia Index rose 7.35% in unhedged AUD terms and 5.61% in fully hedged to AUD terms in the third quarter of 2018. Unhedged returns were higher than hedged returns as the Australian dollar depreciated against most major currencies, especially the US dollar.

US and Japanese equities were leading the way and delivered strong returns over the quarter, while other equity markets recorded mixed performance. On the one hand, corporate earnings and macro data continued to paint a positive picture, led by the US. On the other hand, investors remained anxious about ongoing global trade disputes and the risk of a complete meltdown in emerging markets becoming a more global problem.

Equity indices in other countries generally delivered less positive results than the US. European equities recorded flat to slightly negative performance over the quarter and remained in negative territory year-to-date

Emerging Market (EM) equities also showed weakness over the quarter. The MSCI Emerging Markets Index declined by about 1%, which brings the year-to-date performance to negative 8.9%. The evolving crisis in Turkey and Argentina appeared to have had some spill-over effects into the broader EM complex. In China, the sharemarket delivered relatively muted returns this quarter, following significant sell-offs in the previous two quarters. On the one hand, China's latest industrial production, retail and investment data signalled that the economy could be softening. On the other hand, leading economic indicators such as China's Purchasing Managers' Index (PMI) improved and pointed to further economic expansion.

Outlook

A solid near-term global growth outlook is clouded by persistent and elevated uncertainties. Above-trend U.S economic activity is underpinning G7 gross domestic product (GDP) growth. Economists have become divided on the two-year outlook compared with last year: More are penciling in downside forecasts. See the Heightened uncertainty chart. BlackRock believe global growth can sustain at above-trend levels, even as the range of potential macro outcomes widens heading into 2019.

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0841AU
Flexible Lifetime Investment (Series 2)	AMP1401AU
AMP Flexible Lifetime Super	AMP0466AU
AMP Flexible Super - Retirement account	AMP1336AU
AMP Flexible Super - Super account	AMP1465AU
CustomSuper	AMP0466AU
Flexible Lifetime - Allocated Pension	AMP0622AU
Flexible Lifetime - Term Pension	AMP0911AU
SignatureSuper	AMP0788AU
SignatureSuper Allocated Pension	AMP1140AU

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