Schroder Global Active Value

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

The option is an index unconstrained global equity strategy that aims to generate long-term returns before fees in excess of traditional capitalisation weighted global equity indices by investing in a diversified portfolio of equity and equity related securities of companies worldwide excluding Australia using a Value based investment strategy. Returns provide diversification benefits to typical global equity benchmarks and other global equity managers. Currency exposure is typically unhedged, however currency derivatives may be used with equity index futures in managing cash flows or to manage active currency positions relative to global equity indices for risk management purposes.

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	Value

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100%	99.4%
Cash	0%	0.6%

Regional Allocation	%
North America	41.9
Continental Europe	17.3
Emerging Markets	15.2
Japan	12.5
United Kingdom	9.0
Pacific ex Japan	3.5
Cash	0.6

Sector Allocation	%
Banks	14.5
Consumer Discretionary	12.4
Health Care	11.4
Industrials	10.9
Information Technology	10.4
Materials	8.2
Energy	7.9
Consumer Staples	7.5
Insurance & Asset Manager	7.4
Telecommunication Services	5.7
Real Estate	1.7
Utilities	1.4
Cash	0.6

Top Holdings	%
Singapore Telecom	0.78
Oracle	0.77
Legal & General	0.77
Pfizer	0.77
Ntt Docomo	0.76
Amgen	0.75
Aflac	0.75
Roche	0.74
Eaton	0.74
Cisco	0.74

Portfolio Summary

- Not owning some of the expensive growth stocks was also supportive, helped by the weakness in Facebook and Alphabet.

- Global equities continued to steadily advance during the third quarter as record corporate earnings more than offset uncertainty surrounding global trade wars and the confident pace of policy tightening set by the US Federal Reserve.

Investment Option Commentary

Stock selection in financials was also positive, largely driven by us avoiding some of the lower quality banks. The strategy also benefitted from a rebound in positions in emerging markets following weakness earlier in the quarter, most notably in Turkey and South Africa. The portfolio's longstanding underweight in lower quality yield proxies such as utilities and real estate was also rewarded. Conversely, the positions in semis and auto-parts both lagged due to rising risk-aversion from an escalating trade war which could lead to supply chain disruption but the Fund Manager believes they are trading cheaply relative to their underlying quality.

Over the quarter, despite some tentative signs that the exclusive focus on growth stocks was fading with Facebook and Netflix struggling, the MSCI AC World Value index still lagged Growth by 0.6%, taking its year to date underperformance to 7.7%. The re-emergence of the US growth theme in August following a brief reprieve in July was detrimental to the performance of Global Value. The Fund Manager has, for some time, regarded these stocks as an expensive promise of growth and are encouraged by the broadening out of market leadership towards the end of the quarter. Underweight positions in Apple and Microsoft also weighed on returns, particularly during August. The portfolio have a reasonable exposure to financials which would normally benefit from higher yields but concern about the sustainability of future growth has weighed on sentiment towards these stocks.

Market Commentary

Global equities continued to steadily advance during the third quarter as record corporate earnings more than offset uncertainty surrounding global trade wars and the confident pace of policy tightening set by the US Federal Reserve. One of the clearest themes was the sustained dominance of the US market which outpaced the MSCI All Country World ex US index by as much as 6.7% in Q3, boosting its year-to-date advantage to 13.3% in USD terms. The relative performance of the US versus the rest of the world is now at its most extreme level since at least the early 1970s.

Market breadth was relatively narrow with just 41% of stocks outperforming the MSCI AC World index. This remains a headwind to the diversified approach but there were tentative signs of a rotation in investor sentiment. In particular, the narrow cohort of large cap US growth stocks appears to be fragmenting and the association of market leadership with this group is weakening. Whilst stocks such as Apple, Amazon and Microsoft continued to perform strongly, Facebook and Netflix failed to receive any benefit of the doubt on the back of disappointing news.

The other growing theme was the preference for defensive equities. Out of favour healthcare and telecom stocks were some of the best performing stocks in both Q3 and September, particularly in the US. This may reflect increasing concerns that the US economy has passed its zenith as the US Federal Reserve raised interest rates for the third time this year and also dropped a long standing reference to continuing "accommodative policy". In the main, investors took the widely anticipated tightening in their stride but greater confidence in the pace of future rate hikes pushed the 10-year Treasury yield convincingly above the 3% level for the first time since May to just shy of a seven-year high. Bond-surrogates sold off as a result with utilities and real estate being two of the worst performing areas in September. Financials nevertheless failed to benefit from higher borrowing costs, once again due to rising doubts about the sustainability of current US economic momentum.

Bucking the trend for defensives, US industrial stocks performed well, reflecting a renewed interest in recent laggards as well as a less dominant US dollar. Elsewhere, energy stocks responded positively to a firmer oil price, itself buoyed by tightening supply, particularly during September. The energy sector is now the third best performer this year, following technology and healthcare.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0859AU
AMP Flexible Super - Retirement account	AMP1337AU
AMP Flexible Super - Super account	AMP1466AU
CustomSuper	AMP0859AU
Flexible Lifetime - Allocated Pension	AMP0872AU
Flexible Lifetime - Term Pension	AMP0912AU
Flexible Lifetime Investment	AMP0844AU
Flexible Lifetime Investment (Series 2)	AMP1402AU
SignatureSuper	AMP0967AU
SignatureSuper Allocated Pension	AMP1141AU

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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