

Aberdeen Standard Emerging Opportunities

Quarterly Investment Option Update

31 December 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	98.7
Cash	-	1.3

Regional Allocation	%
Asia	71.4
Africa and Middle East	3.8
Emerging Europe	4.5
Latin America	18.9
UK	0.0
Cash	1.3

Sector Allocation	%
Energy	3.9
Materials	7.0
Industrials	1.3
Consumer Discretionary	8.1
Consumer Staples	6.1
Health Care	0.7
Financials	53.2
Information Technology	10.7
Telecommunication Services	2.3
Utilities	--
Real Estate	5.4
Cash	1.3

Top Holdings	%
Aberdeen Global Indian Eq Fund	14.0
Aberdeen Global China A Equity Fund	7.2
Tencent Holdings	6.5
Samsung Electronics	5.5
TSMC	4.7
Banco Bradesco	3.4
Ping An Insurance	3.0
AIA Group	2.6
Vale SA	2.5
Astra International	2.4

Investment Option Commentary

On the back of falling energy prices, several notable oil-importing countries held up well or gained ground, including India and Indonesia. The overweight to both markets added to performance, with the fund's holdings conglomerate Astra International and Bank Central Asia benefiting from the rupiah recovery. The large exposure to Brazil also proved beneficial. Market-friendly right-wing Jair Bolsonaro's presidential election win and his unexpected good showing in Congress fuelled optimism about a revived reform agenda. The fund manager's long-standing overweight positions in lender Banco Bradesco, retailer Lojas Renner and premium mall operator Multiplan were among the major contributors.

Meanwhile, the underweight to China aided performance as markets there lagged the broader index. At the stock level, China Resources Land rose on robust results and earnings upgrades, as well as expectations that Beijing's stimulus would boost the property sector. The lack of exposure to Baidu was also beneficial, as most software and internet firms de-rated amid fears of a domestic slowdown. Their holding 58.com was roiled by the rotation out of US-listed tech names as a result.

Detractors in the period included Wuxi Biologics. Its business model appears threatened by trade worries, which could impede the transfer of biological data and knowhow. Similarly, major players in the global tech hardware supply chain, such as Sunny Optical and Samsung Electronics, also suffered. Their outlooks were further clouded by expectations of a slowing equipment-replacement and upgrade cycle. Elsewhere, Cancun airport operator Asur sold off on the cancellation of the new Mexico airport.

Market Commentary

Emerging markets retreated in the fourth quarter, but proved resilient relative to their developed counterparts, which suffered a sharp reversal of earlier gains. A confluence of factors, including simmering trade tensions, faltering global growth and the Federal Reserve's commitment to reducing its balance sheet weighed on sentiment.

Unsurprisingly, China fell sharply. Respite from the rapprochement with Washington seemed fleeting after Chinese telecom giant Huawei's CFO was arrested, and investors remained anxious over its impact on the outcome of the trade talks. The market was also hampered by jitters in the technology sector, which reeled from supply disruption worries, weaker-than-expected results from US majors and signs of a slowing domestic economy. To boost private consumption and investment, Beijing unveiled a raft of stimulus measures and slashed the reserve requirement ratio for commercial lenders. Other export-dependent markets, including Korea and Taiwan, also suffered from collateral damage, with contraction in overseas orders and manufacturing data.

More positively, oil prices eased, as OPEC's pledge to curb output was overshadowed by rising US shale production and expectations of falling demand. Indonesia and India rebounded as a result. For Indonesia, markets welcomed the central bank's sixth rate hike to manage a widening current account deficit, lending further support to the rupiah. India was resilient, shrugging off the ruling BJP's defeat in three key states and the stand-off between the government and the central bank that led to the resignation of its governor.

Outlook

While the fund manager does not underplay the risks, they feel recent emerging-market concerns have been overdone and expect sentiment and Aberdeen's higher-quality holdings to recover. As the effect from the Trump tax cuts and fiscal stimulus fades, the US dollar should ease further. Despite a temporary US-China trade rapprochement, the fund manager thinks there will be prolonged tension and will continue to monitor developments. Meanwhile, China's policy easing measures should prop up domestic consumption to stabilise growth. Politics will also be a key driver, with investors keeping a close eye on progress by the new administrations in Mexico and Brazil, as well as elections in markets such as India, Indonesia and South Africa. At the corporate level, Aberdeen's holdings are businesses with healthy fundamentals, wide economic moats, and run by experienced management. With their solid balance sheets, they have been able to support improving returns to shareholders and their earnings forecasts remain positive, despite the short-term volatility.

Overall, the fund manager believes that the portfolio is well-positioned to withstand future challenges and capture the medium to long-term opportunities in emerging markets.

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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