

Arrowstreet Global Equity

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

To achieve a long-term total return (before fees and expenses) that exceeds the MSCI All Country World ex-Australia Index, in Australian dollars unhedged with net dividends reinvested. The portfolio provides exposure to a diversified portfolio of global equities which may include securities listed in emerging markets as well as securities of small capitalisation companies. The option will not invest in 'tobacco' securities as defined by Global Industry Classification Standards (GICS) and 'controversial weapon' securities as defined by MSCI, Inc. The option is actively managed using a quantitative approach and stock selection modelling to evaluate securities on an integrated basis to exploit tactical opportunities across different factors with the aim of controlling risk relative to its benchmark and maximising the likelihood of outperforming its benchmark. Arrowstreet's stock selection models are designed to:

- understand what information is likely to impact stock prices and obtain the information to forecast individual stock returns by evaluating a stock's potential on the basis of a diverse set of direct and indirect effects, and
- identify particular signals or segments of the market that exhibit the greatest mispricing (or inefficiencies) at any point in time.

The option may use derivatives to manage currency risk arising from differences in the currency weights of the portfolio's investments compared to its benchmark. The portfolio's exposure to foreign currencies is not hedged back to Australian dollars.

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	Core

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100.00	100.00
Cash	0.00	0.00

Regional Allocation	%
North America	47.60
Europe ex UK	25.04
Japan	11.28
Emerging markets	9.56
United Kingdom	4.70
Asia ex Japan	1.82

Sector Allocation	%
Information technology	19.76
Health care	22.39
Financials	15.24
Energy	6.35
Industrials	8.30
Consumer discretionary	7.52
Consumer staples	4.37
Materials	4.08
Utilities	4.49
Communication Services	6.27
Real Estate	1.25

Top Holdings	%
Roche Holdings Ag	2.13
Mastercard Inc	1.79
Visa Inc	1.71
Siemens Ag	1.67
Home Depot Inc	1.66
Abbvie Inc	1.54
Microsoft Corp	1.51
Bristol-Myers Squibb Co	1.43
Enel Spa	1.38
Samsung Electronics	1.38

Portfolio Summary

Brazilian energy stocks outperformed global markets during the quarter. In October, Jair Bolsonaro was elected president. Bolsonaro aims to focus on the energy sector as a key driver of growth and development. Higher crude prices also aided outperformance of the basket. Energy giant Petrobras, the largest constituent of the basket, benefited from the higher crude prices, sustained production growth and continued debt reduction. The Fund's overweight positioning was motivated by basket level indirect momentum signals and basket level quality signals.

U.S. utilities outperformed the broader market in the fourth quarter as investors fled to defensive sectors amid market weakness and volatility. The sector traded well on a relative basis in each month of the quarter, though the outperformance was particularly notable in October. Electric and water utilities benefitted the most. The Fund's underweight positioning was motivated by basket level value signals and basket level quality signals.

Market Commentary

Equity markets fell across most regions and volatility rose in the fourth quarter. Most developed regions performed poorly as signs of the adverse effects of trade conflicts, rising geopolitical tensions, disappointing third quarter earnings, and slowing global growth provoked risk aversion among investors. While the U.S. and China appeared to make progress on trade issues, profit warnings related to the negative impacts of tariffs weighed on shares. Furthermore, a number of companies both in the U.S. and abroad noted the headwinds posed by a stronger U.S. dollar. Political drama in the U.S. contributed to market volatility, highlighted by White House criticism of Fed monetary policy, the departure of several high ranking administration officials, and a year-end government shutdown. Economic data in the U.S. continued to show strength; however, investors voiced fear about the peak of the cycle approaching.

Outside of the U.S., economic data was soft, especially for European manufacturing sector exports, suggesting a slowdown in global demand. Budget issues plagued Italy, who despite coming to an agreement with the E.U. remained under tight fiscal scrutiny. A lack of progress on Brexit negotiations and the subsequent challenges to Theresa May's leadership in the U.K. further contributed to market instability. Reversing prior quarter trends, emerging markets was the best performing region during the fourth quarter. Brazilian equities in particular rallied as conservative Jair Bolsonaro was elected president. Energy was the worst performing sector in fourth quarter, falling over 21% as WTI crude oil prices fell approximately 38% on the heels of excess supply concerns and evidence of deteriorating global economic trends. High-momentum technology stocks also fell precipitously on underwhelming earnings and weakening business trends. Sectors such as utilities, real estate, communications, and consumer staples outperformed on a relative basis as investors fled into defensive stocks.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1530AU
AMP Flexible Super - Retirement account	AMP1590AU
AMP Flexible Super - Super account	AMP1578AU
CustomSuper	AMP1530AU
Flexible Lifetime - Allocated Pension	AMP1542AU
SignatureSuper	AMP1554AU
SignatureSuper Allocated Pension	AMP1566AU

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