

# Future Directions Emerging Markets

Quarterly Investment Option Update

31 December 2018

## Aim and Strategy

To provide high returns over the long term, while accepting a higher level of volatility, through a diversified portfolio of international shares, focusing on emerging markets. The objective is to provide a total return, after costs and before tax, higher than the return from the MSCI Emerging Markets (ex Tobacco) Net Return Index (AUD) on a rolling 3 to 5 years basis.

## Investment Option Performance

To view the latest investment performances please visit [www.amp.com.au](http://www.amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Global Shares
<b>Suggested investment timeframe</b>	7 years
<b>Relative risk rating</b>	Very High
<b>Investment style</b>	Multi-Manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Global Shares	100
Cash	0

<b>Actual Allocation</b>	<b>%</b>
Global shares	96.06
Listed property & infrastructure	2.17
Cash	1.77

<b>Sector Allocation</b>	<b>%</b>
Financials	24.45
Information Technology	21.88
Consumer Discretionary	4.60
Materials	11.28
Energy	8.14
Consumer Staples	6.66
Industrials	5.47
Telecommunication Services	7.53
Health Care	2.28
Cash	1.77
Real Estate	3.01
Utilities	2.93
Others	-0.01

## Portfolio Summary

- The Fund posted a negative absolute return and underperformed the benchmark in the December quarter.
- Emerging markets continued to weaken, but outperformed their developed market counterparts during the period, with Mexico the worst of the major markets whereas Brazil performed best.
- Emerging market shares are likely to remain under pressure while the threat of a trade war remains and the US dollar remains strong.

## Investment Option Commentary

The Fund posted a negative absolute return (before fees) and underperformed the benchmark over the December quarter. All of the Fund's three underlying managers made negative returns, but Schroders performed strongly to outperform the benchmark while Lazard and Investec underperformed.

Security selection was the primary drag on the Fund's relative performance. At the country level, the allocation impact was positive. An underweight allocation to China and South Korea were the major contributors to returns, with the Fund's cash position also enhancing returns as markets fell overall during the period. The Fund's underweight exposure to the strong-performing Brazilian and Indian markets and being overweight Mexico were the major detractors.

The overall impact of sector allocation was positive, primarily reflecting the contribution from being underweight to the consumer discretionary sector.

Security selection detracted overall from returns. At the security level, the largest single stock detractor was an underweight exposure to Brazilian bank Itau Unibanco (+28%), as many Brazilian companies benefitted from the post-election rally on the basis of investors favouring the new President's economic policies and promise to tackle corruption. Other significant detractors included the Fund's underweight holding in Indian property financier Housing Development Finance Corp (+20%) and overweight position in Chinese pharma CSPC Pharmaceutical Group (-30%).

The largest single contributor to performance was the Fund's underweight holding in Taiwanese electronics maker Hon Hai Precision Industry (-25%). Better known as Foxconn, shares in the Apple supplier came under pressure following Apple's downgrade for revenue forecasts and amid a broad sell-off in Asian technology companies after the arrest of the Huawei Technologies CFO, Meng Wanzhou, on sanctions-busting charges and the possible impact on US-China trade negotiations. Other significant contributors included the Fund's underweight holding in Chinese e-commerce giant Alibaba Group (-15%) and overweight holding in Brazil's largest bank Banco do Brasil (+69%).

## Outlook

The US-China focussed trade war and tariff regime have increased global risks, resulting in elevated volatility and uncertainty. There are global expectations for a positive outcome from the recently announced US-China tariff truce. In the meantime, global shares are likely to remain under pressure. European tensions remain high, particularly from Brexit uncertainty, Italian debt issues and French social dissension; all of which could add to short-term volatility. Emerging market shares remain under pressure with a strong US dollar pushing up funding costs. Until the final extent of the recent share sell-off is known and the global political landscape stabilises, it is too early to accurately judge the immediate economic prospects as we head into 2019.

## Availability

Product name	APIR
AMP Flexible Super - Retirement account	AMP1350AU*
AMP Flexible Super - Super account	AMP1479AU*
CustomSuper	AMP1103AU*
Flexible Lifetime - Allocated Pension	AMP1105AU*
AMP Flexible Lifetime Super	AMP1103AU*
Flexible Lifetime - Term Pension	AMP1109AU*
Flexible Lifetime - Investments (Series 1)	AMP1117AU*
Flexible Lifetime - Investments (Series 2)	AMP1414AU*
SignatureSuper	AMP1114AU*
SignatureSuper - Allocated Pension	AMP1153AU*

\*Closed to new investors

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