Schroder Global Active Value

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

The Schroder Global Value Fund 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%	99.9%
Cash	0%	0.1%

Regional Allocation	%
North America	39.4
Continental Europe	20.3
Emerging Markets	14.6
Japan	13.2
United Kingdom	8.6
Pacific ex Japan	3.7
Cash	0.1

Sector Allocation	%
Banks	16.3
Health Care	12.1
Industrials	11.9
Consumer Discretionary	10.6
Information Technology	9.1
Insurance & Asset Manager	8.5
Communication Services	7.8
Energy	7.7
Materials	6.9
Consumer Staples	5.4
Real Estate	2.0
Utilities	1.7
Cash	0.1

Top Holdings	%
AbbVie	1.05
Intel	1.05
Unilever	1.03
Amgen	1.02
Bristol-Myers Squibb	1.00
Roche	0.96
Equinor	0.95
Ntt Docomo	0.93
Pfizer	0.93
Kimberly Clark	0.89

Portfolio Summary

The relative performance of the Global Value strategy reflected the shifting themes during the year with the headwinds that dominated during 2017 initially following through before partially reversing towards the close of the year. Not holding many of the expensive growth stocks was also a detractor that has only partially reverted. On the plus side, long held allocation to health care (particularly pharmaceuticals) and stock selection within the energy sector was beneficial over the year.

Investment Option Commentary

Against the backdrop of a volatile fourth quarter, Global Value was ahead of its reference indices. As investors reset their expectations for their future growth in the prior market darlings, the fund manager's longstanding underweight positions in these names contributed positively during Q4. In particular, not holding index heavyweights Apple (hardware) and Amazon (online retail), contributed positively as their 2019 earnings were revised downwards. The fund also benefitted from good stock selection in technology more broadly. In particular, avoiding many expensive stocks in the highly cyclical semiconductor industry was beneficial.

Stock selection within industrials also contributed positively to performance in Q4 due to the fund's focus on good quality companies that trade at reasonable valuations. Underweight positions among poorer quality names in the sector, such as General Electric and Fedex Corp, proved to be a boon. Additionally, longstanding overweight position in Central Japan Railway was positive. The fund also benefitted from stock selection within the health care sector, particularly in the US and Continental Europe, where they have a number of longstanding overweight positions that performed well.

On the negative side, overweight positions in attractively valued US financials weighed on returns as the sector suffered during the final quarter amidst negative sentiment due to rising fears of an impending cyclical slowdown. Similarly, longstanding underweight in utilities and real estate, notably in the US, also detracted as bond yields declined. Utilities were in fact the best performing sector through both Q4 and 2018 as a whole. Schroders maintain a low weight to the naïve bond proxy sectors where valuations are not appealing given their fairly unattractive fundamentals.

Schroders also took advantage of renewed market volatility to reduce their allocation to defensive sectors, trimming certain positions in US consumer staples and EM & European telecoms that they had built up earlier in the year when valuations were more attractive. This in part funded by an increase in their exposure to industrials: across both regions and industries, split between building up some very deep value positions (e.g. within Japan) and adding stocks offering high quality yields at currently reasonable prices across Europe and the US.

Market Commentary

Global equities retreated sharply towards the end of 2018, posting their worst quarterly loss since late 2011 at the height of the Eurozone debt crisis. The MSCI All Country World Index declined by 12.8% (in USD terms) during Q4 with the selling pressure intensifying during the quarter as investors reacted to concerns about a slowing global economy, less supportive central banks and a range of geopolitical worries, not least the uncertainty surrounding Brexit negotiations and US-Sino trade relations. In contrast, bond markets took comfort from the uncertainty. Declining yields and the preference for defensive assets naturally favoured the traditional bond proxy areas such as utilities, which was the only sector to post positive returns during the period, in USD terms, as well as real estate and some consumer staples. At the other end of the performance table, energy stocks were hit by the sharp selloff in oil prices. The fading allure of the growth darlings continued to unfold with stocks such as Facebook, Amazon, Netflix and Apple all declining more than 20% whilst chipmaker Nvidia halved in value over the quarter.

For 2018 as a whole the MSCI All Country World Index fell by 9.4% in USD terms, its worst yearly performance since the height of the global financial crisis in 2008. It was clearly a year of two halves however. The start of the year was dominated by continued momentum in a handful of large cap US growth stocks with Facebook being the main exception due to a data breach scandal. This partially reversed as the year progressed against the backdrop of rising market volatility. Downward revisions to earnings expectations going ahead were clearly a contributory factor behind the rotation as elevated valuations were increasingly difficult to justify. Nevertheless, US stocks were the standout area for the year as a whole, despite losing some of their lustre towards the close of 2018. US gains were helped by the strength of the USD whilst emerging markets were the main loser, again largely due to currency weakness. A long running trade dispute with the US leading to future growth concerns and a tightening of regulations on shadow banking made China one of the world's worst performing stock markets in 2018.

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

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