Blackrock Scientific International Alpha Tilts

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To provide returns before fees that exceed the MSCI World ex-Australia Net TR Index (unhedged in AUD) by 2.5% to 3.0% pa over rolliwng three-year periods, while maintaining a similar level of investment risk to the index. The option utilises a combination of active stock selection strategies across international developed stock markets that aim for the best trade-off between returns, risk and costs.

Investment risk is managed by diversifying across many regions and countries and by holding the shares of a large number of companies within each industry. This option is not hedged to the Australian dollar. When derivative positions are established, they will always be backed by cash holdings and/or underlying assets. Derivative securities will not be used to leverage exposures.

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	

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	99-100	99.0
Cash	0-1	1.0

Regional Allocation	%
United States	60.7%
Japan	7.2%
Canada	4.6%
United Kingdom	4.4%
Switzerland	3.6%
France	3.5%
Netherlands	2.8%
Germany	2.8%
Ireland	1.7%
Italy	1.6%
Norway	1.4%
Spain	1.2%
Denmark	1.0%
Belgium	0.9%
United States	60.7%
Japan	7.2%
Canada	4.6%

Sector Allocation	%
Communication Services	10.6%
Consumer Discretionary	9.3%
Consumer Staples	7.8%
Energy	5.1%
Financials	13.8%
Health Care	14.1%
Industrials	10.3%
Information Technology	17.3%
Materials	3.5%
Real Estate	4.3%
Utilities	3.2%
None	0.6%

Top Holdings	%
Amazon com Inc	2.2%
Johnson & Johnson	1.7%
Apple Inc	1.7%
JPMorgan chase & co	1.6%
Microsoft Corp	1.6%
Unitedhealth group Inc	1.4%
Chevron Corp	1.4%
Facebook class a Inc	1.3%
Roche holding par ag	1.3%
Wells Fargo	1.3%

Investment Option Commentary

The international stock selection strategy made some gains over the quarter driven by Momentum, Sentiment, Valuation and Cross Border Thematics while Quality detracted. The majority of positive performance was observed in Europe (Sentiment and Momentum) Canada (Cross Border Thematics) while the US detracted the most (Quality and Sentiment). Sectors that contributed the most included favourable positioning in north American Financials, overweights in Italian Consumer Discretionary and overweights in Consumer Staples. Unfavourable positioning within the Information Technology sector, particularly in North American software and computer companies detracted. Overall, the best performing sectors were Financials driven by an underweight position in diversified financial service. Consumer Discretionary was helped by our overweight in Italian luxury automobiles and North American retail while Consumer Staples benefited notably from an overweight tobacco and underweight beverages in North America. Information Technology was hurt by an overweight position in North American hardware while overweights in Communications and underweights in Energy and Materials also detracted.

Market Commentary

After their impressive start to the year, many asset classes continued to perform strongly in February. Risk assets such as equities continued to recover after selling off towards the end of 2018, supported by improved risk appetite, progress on US-China trade talks and a shift in central bank policy from a tightening bias towards a more neutral/supportive monetary policy stance. The pivoting to a more dovish/easier stance by various central banks around the globe, including the US Federal Reserve (Fed), European Central Bank (ECB) and Reserve Bank of Australia (RBA) has helped fixed income assets record positive returns. Policymakers are cognizant of the global economic slowdown and appear determined to stabilise economic growth. China announced corporate tax cuts, easier credit and fiscal stimulus. In Europe, governments appear to move towards expansionary fiscal policy and the US Federal Reserve signalled that rate hikes are on hold and the reduction of the Fed's balance sheet may come to an end later this year.

The US earnings season was positive but not outstanding. Over 70% of technology companies beat expectations and energy sector earnings were surprisingly resilient despite the sharp drop in oil prices in the last quarter of 2018. President Trump signed off on a spending and border security plan to keep the US government running and averted another partial shutdown. US economic data sent mixed messages. Figures for the US labour market and the manufacturing sector came in stronger than expected, but retail sales recorded their largest decline in more than nine years. The Federal Open Market Committee's January meeting minutes signalled the Fed's balance sheet may stop shrinking in the third quarter and indicated central bank officials' willingness to keep interest rates stable "for a time." President Trump delayed a tariff increase on Chinese imports (previously scheduled for 1st March), citing "substantial progress" in trade talks between the two nations.

The Eurozone composite Purchasing Managers' Index (PMI) surprised to the upside as did composite measures in France and Germany, both rebounding from prior months' weakness. However, the Eurozone manufacturing PMI fell to its lowest level in nearly six years at 49.2 and the European Commission (EC) lowered its GDP growth forecast. The EC now forecasts 2019 and 2020 GDP growth for the Eurozone to be 1.3% (previously 1.9%) and 1.6% (previously 1.7%), respectively. In the UK, Brexit talks continued to dominate headlines, but a formal agreement between the UK and the European Union has still not been reached. UK Prime Minister Theresa May appeared to change stance and announced a potential delay to the UK's planned exit from the European Union (EU) on 29 March. Theresa May also announced that if the proposed withdrawal agreement were to be rejected again, the UK parliament would get to vote on a no-deal Brexit, and then on extending the timetable. Despite the next parliamentary vote being delayed until mid-March and sustained divisions between members of parliament, markets lowered the probability of a no-deal Brexit and a delay in the UK's exit from the EU has become somewhat more likely (noting that other scenarios are still on the table).

Sharemarkets in Asia generally recorded positive returns in February except for South Korea and India. Worries that China's economy is decelerating sharply have eased somewhat. The Chinese government seems determined to boost the domestic economy and signalled that it intends to use monetary and fiscal policy to help stabilise economic activity. The Chinese government announced corporate tax cuts and the country's 2019 GDP growth target was set at 6 - 6.5% (versus an actual growth rate of 6.6% in 2018). Donald Trump's announcement to postpone the tariff increase on US$200bn of Chinese exports was also seen as a positive sign and provided investors with enough reasons to increase their appetite for risk. However, while delaying higher tariffs should be positive for exports and manufacturing, the effects of lower trade have already been felt around the world, especially in Asia. This was highlighted by steep declines in exports from Singapore and South Korea, alongside an 8.4% decline in Japan's exports compared to one year ago. A common factor has been falling shipments to China as its economy cools and feels the impact of the trade dispute with the US.

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0841AU
Flexible Lifetime Investment (Series 2)	AMP1401AU
AMP Flexible Lifetime Super	AMP0466AU
AMP Flexible Super - Retirement account	AMP1336AU
AMP Flexible Super - Super account	AMP1465AU
CustomSuper	AMP0466AU
Flexible Lifetime - Allocated Pension	AMP0622AU
Flexible Lifetime - Term Pension	AMP0911AU
SignatureSuper	AMP0788AU
SignatureSuper Allocated Pension	AMP1140AU

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