Future Directions Emerging Markets

Quarterly Investment Option Update

31 March 2019

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

Investment Option Overview

Investment category	International Shares
Suggested investment timeframe	7 years
Relative risk rating	Very High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
International Shares	100
Cash	0

Actual Allocation	%
International shares	94.19
Listed property & infrastructure	2.32
Cash	3.49

Sector Allocation	%
Financials	23.14
Information Technology	21.11
Consumer Discretionary	9.53
Materials	9.14
Energy	7.73
Consumer Staples	6.98
Industrials	5.32
Telecommunication Services	5.55
Health Care	2.21
Cash	3.49
Real Estate	2.94
Utilities	2.84
Others	0.02

Fund Performance

The Fund posted a positive absolute return (before fees) and outperformed its benchmark over the March quarter. All three underlying fund managers posted positive returns and two of them, Lazard and Investec, outperformed the benchmark, while Schroders underperformed the benchmark. The Fund continues to outperform over the longer term, including 2, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

Country allocation modestly contributed to relative performance over the period. An allocation to Hong Kong was the main positive contributor, while an underweight allocation to China was the main detractor.

Sector allocation detracted from relative performance. An underweight position in consumer discretionary was by far the main detractor, while an overweight position in information technology and an underweight position in health care were the main contributors.

Security selection was the key driver of relative performance. The largest individual contributor was an overweight position in Russian oil company Lukoil, which rallied (+24.2%) as the crude oil price increased. Other significant contributors included overweight positions in Chinese insurer Ping An Insurance and Chinese food company WH Group which rose (+25.7% and +37.7% respectively) over the period.

The largest individual detractor from relative performance was an underweight position in Chinese e-commerce giant Alibaba Group. The company rallied (+31.9%) after reporting strong Q3 2018 results and as Chinese tech stocks were boosted by news that the US would delay tariff increases on Chinese goods. Other significant detractors included overweight positions in Brazilian miner Vale and South Korean telecom LG Uplus, which fell (-14.3% and -14.7% respectively) over the period.

Market Review

After heavy falls in the December quarter, global share markets posted extremely strong gains over the March quarter, with the MSCI World ex Australia index finishing up by 12.66%. While markets around the globe remain optimistic on the back of reasonably good global economic growth, a somewhat dovish US Federal Reserve, improving US trade relationships, strong resource prices and Chinese economic stimulus, this is being balanced by some caution creeping in around an inverting US yield curve, softening (but still reasonable) US growth and relatively high price/earnings ratios - particularly in the US.

Chinese shares were the clear standout over the period, as the CITIC300 index soared 27.63% on the back of positive trade talks with the US and stimulus measures introduced by the Chinese government. Most other major markets saw returns near or beyond double-digits for the period, as a wave of optimism seemed to make the falls of late 2019 a distant memory. Despite the markets' rise, broader risks to global growth have arguably not appreciably changed over the quarter, leading many commentators to urge caution, after the strong price rises. Emerging markets were also strong over the period, with the MSCI Emerging Markets index returning 9.84% as resource prices rose and the positive sentiment from developed markets spilled over, despite ongoing currency and debt issues that many developing economies continue to face.

(All indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Outlook

Ongoing and unresolved US-China trade negotiations continue to impart uncertainty to the markets, with recent short-term swings between a 'risk-on' and 'risk-off' bias. Therefore, until some semblance of longer-term stability supports global markets, shares will likely remain susceptible to volatility, especially following the rally from falls at the end of 2018. The US Federal Reserve has also changed tack, indicating from recent communications that further interest rate rises will not occur until 2020 and that it will halt the shrinking of its balance sheet by September 2019. European tensions remain high, particularly from Brexit uncertainty and the fast approaching exit date. Eurozone GDP remains anaemic, and with the German economy approaching technical recessionary territory, the European Commission has revised growth estimates down and implemented stimulatory measures, with more likely to come. Emerging market shares, in particular, remain vulnerable to the persistently strong US dollar which is keeping funding costs elevated.

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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