Schroder Global Value

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

The option 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%	99.4%
Cash	0%	0.6%

Regional Allocation	%
North America	41.0
Continental Europe	19.6
Emerging Markets	14.4
Japan	12.7
United Kingdom	7.5
Pacific ex Japan	2.7
Cash	2.1

Sector Allocation	%
Banks	15.1
Health Care	13.6
Industrials	12.5
Information Technology	10.3
Consumer Discretionary	9.1
Insurance & Asset Manager	8.4
Energy	8.2
Communication Services	7.0
Materials	6.0
Consumer Staples	5.0
Real Estate	2.0
Utilities	0.9
Cash	2.1

Top Holdings	%
Glaxosmithkline	1.07
Cisco	1.06
Roche	1.06
Novartis	1.06
Unilever	1.05
Amgen	1.05
Intel	1.04
AbbVie	1.04
Pfizer	1.04
Packaging Corp of America	1.01

Portfolio Summary

Market breadth started to narrow again during the quarter, particularly in developed markets as investors increasingly focused on a limited group of popular stocks. Having started the year on a firmer footing, the narrowing of market breadth was a headwind to the QEP Global Value strategy during the first quarter but particularly in March. However, against the MSCI AC World Value Index, the QEP Global Value strategy modestly outperformed through both the month and first quarter. Being underweight the popular and more expensive "growth" stocks was a significant drag given the strong returns posted by Facebook, Amazon, Alibaba and NVidia. Positions in financials were also particularly detrimental amidst fears of a cyclical slowdown and falling bond yields more generally. Further, the Fund Manager holdings in cheaper stocks elsewhere were not rewarded. For example, a number of health care positions in the US (mostly pharmaceuticals) and Japanese telecoms suffered despite their quality credentials. This was partially offset by a lower exposure to automakers (e.g. Tesla, Toyota) and good stock selection elsewhere in consumer discretionary. Their positions in miners, particularly those in the UK also proved a modest positive given the firmness of commodity prices.

Investment Option Commentary

The narrowing of market breadth and preference for growth were headwinds to the QEP Global Value strategy during the first quarter. In particular, not holding the less affordable, popular "growth" stocks was a significant drag given the strong returns posted by Facebook, Amazon, Alibaba and NVidia.

On the other hand, Their larger than index holdings in more attractively priced defensive sectors and financials stocks were not rewarded. For example, a number of health care positions in the US (mostly pharmaceuticals) were detrimental despite their high quality credentials. Similarly, their arger than index positions in Japanese telecoms (KDDI & NTT Docomo) lagged, in part due to weakness in the Japanese market more broadly but also due to the threat of more competition from a new entrant.

The underperformance of their overweight positions in financials was particularly detrimental. This was broadly based but was most evident in banks as these areas suffered from the rapid change in sentiment towards fears of a cyclical slowdown and falling bond yields more generally.

More generally, the pessimism towards global growth also impacted upon their holdings in some of the more export focused areas such as auto parts. Partially offsetting this, aside from the popular and more expensive "growth" stocks, their stock selection in consumer discretionary was positive. In particular, larger than index positions in Garmin, Next and Ebay were all beneficial. Lower than index holdings in selected US consumer staples at start of the year also proved beneficial.

Schroder's positions in miners, particularly those in the UK (e.g. Anglo American) proved another modest positive given the firmness of commodity prices. Meanwhile, their longstanding underweight to the utilities sector, particularly in the US, an area of the market we deem expensive given the fundamentals, was also a modest tailwind.

Market Commentary

Whilst the year started out with a modest bias towards cheap cyclicals, the strongest theme during the first quarter was the revival in interest in the so-called "growth" stocks such as Facebook, Netflix, Alibaba and NVidia. As a result, market breadth started to narrow again during the quarter, particularly in developed markets as investors increasingly focused on a limited group of popular stocks. The MSCI AC World Value index lagged whilst Growth and Momentum indices were both ahead (the Value Index underperformed Growth by 4.5%).

Regionally, Japanese equities were the main laggard over the quarter, which was only partly attributable to yen weakness. Emerging markets also lagged behind, particularly later in the quarter although Chinese stocks bounced back after a torrid 2018, concentrated mostly in on-shore stocks which are dominated more by retail inflows. The UK performed broadly in line despite Brexit uncertainty with sterling gaining more than 2% even after some consolidation in March. Elsewhere, financials and health care were the two worst performing sectors whilst technology, real estate and energy topped the league table. There was however a large dispersion within some sectors.

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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