

Specialist Hedged International Share

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the MSCI World (ex-Australia, ex-tobacco) Accumulation Index with net dividends reinvested (hedged back to Australian dollars) on a rolling three-year basis, through investing in a diversified portfolio of international shares. This option aims to be fully hedged to Australian dollars. In certain market conditions, the portfolio may hold a higher level of cash than the 10% limit.

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	5 years
Relative risk rating	High
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
International shares	100
Cash	0

Actual Allocation	%
International shares	100
Cash	0

Region Allocation	%
North America	57.13
Europe ex UK	14.46
Japan	7.71
Cash	4.82
Asia ex Japan	1.53
United Kingdom	5.51
Others	0.16
Emerging Markets	8.68

Sector Allocation	%
Information technology	18.98
Consumer discretionary	10.62
Health care	15.92
Financials	11.11
Industrials	10.29
Cash	4.84
Energy	5.04
Consumer staples	6.68
Materials	3.61
Real Estate	1.78
Utilities	2.52
Telecommunication services	8.58
Others	0.02

What Happened Last Period

- Global share markets posted extremely strong gains over the March quarter.
- The Fund posted a positive absolute return, but underperformed its benchmark over the period.
- Until some semblance of longer-term stability supports global markets, shares will likely remain susceptible to volatility.

Fund Performance

The Fund posted a positive absolute return, but underperformed its benchmark over the March quarter. All of the five underlying fund managers delivered positive returns and one of them, American Century, outperformed its benchmark over the period. The Fund continues to outperform its benchmark over the longer term, including over 2, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

Country allocation was the key detractor from relative performance over the period. An exposure to South Korea and an underweight exposure to the United States were the main detractors, while an overweight exposure to Australia and an underweight exposure to Germany were the main positive contributors.

Sector allocation also detracted from relative performance. An overweight exposure to health care and an underweight exposure to energy were the main detractors, while underweight exposures to financials and consumer staples and an overweight exposure to information technology were the main positive contributors.

Stock selection also detracted from relative performance. The largest individual detractors were overweight exposures to US companies AbbVie, Kraft Heinz and XPO Logistics. Pharmaceutical company AbbVie fell (-12.6%) after announcing disappointing fourth quarter 2018 results. Food giant Kraft Heinz fell sharply (-24.2%) after reporting a fourth quarter 2018 loss, mainly due to brand write downs, and after disclosing a Securities and Exchange Commission probe into its accounting practices. Transport company XPO Logistics waned (-6.6%) after reporting soft fourth quarter 2018 results.

The main positive contributors to relative performance were overweight exposures to US companies Celene Corporation, Mastercard and Facebook. Biotechnology company Celgene Corporation soared (+45.9%) after Bristol-Myers Squibb announced its intention to acquire the company. Financial services giant Mastercard climbed (+23.8%) after reporting strong fourth quarter 2018 results and as US credit card debt rose to record levels. Social-media company Facebook jumped (+22.8%) after announcing much better than expected Q4 2018 results.

The hedged exposure to the Australian dollar had a negative impact on returns, primarily because the currency depreciated versus the US dollar over the quarter.

Market Review

After heavy falls in the December quarter, global share markets posted extremely strong gains in the March quarter, 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 (Fed), 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 three months, leading many commentators to urge caution, after the strong price rises. Emerging markets were also strong over the period, 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, equities 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 2019 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. Asian data remains mixed, with both Japan and China continuing to be accommodative.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0865AU
AMP Flexible Super - Retirement account	AMP1354AU
AMP Flexible Super - Super account	AMP1483AU
CustomSuper	AMP0865AU
Flexible Lifetime - Allocated Pension	AMP0876AU
Flexible Lifetime - Term Pension	AMP0926AU
Flexible Lifetime - Investments (Series 1)	AMP1006AU
Flexible Lifetime - Investments (Series 2)	AMP1418AU
SignatureSuper	AMP0953AU
SignatureSuper - Allocated Pension	AMP1156AU
SignatureSuper Select	AMP0953AU

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