

Aberdeen (Aberdn) Standard Emerging Opportunities

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

To provide investors with high capital growth over the medium to long term (3 to 5 years) by seeking exposure to emerging stock markets worldwide or companies with significant activities in emerging markets. The benchmark is the MSCI Emerging Markets Index. In seeking to achieve the objective, the investment manager may invest in securities which are not contained in the index used as the performance benchmark. This investment option primarily invests in a diversified portfolio of emerging market securities. The normal characteristics of this investment option are:

- low turnover - the average holding period is around 4 years
- significant divergence from the benchmark
- low cash allocations, and
- a beta less than or equal to one.

On occasions (such as where the purchasing costs of the investment can be reduced), a portion of the investment may be directly invested in other investment vehicles managed by other abrdn Group companies. This investment option does not generally borrow to invest and is not hedged to the Australian dollar.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Review

Investment Category	Global Shares
Suggested Investment timeframe	3 - 5 years
Relative risk rating	7 / Very High
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Emerging Markets Equities	100.0	98.6
Cash	-	1.4
Sector Allocation		%
Energy		2.6
Materials		9.0
Industrials		5.3
Consumer Discretionary		13.7
Consumer Staples		5.9
Health Care		1.7
Financials		21.6
Information Technology		28.8
Communication Services		6.9
Utilities		1.8
Real Estate		1.1
Cash		1.4
Regional Allocation		%
Asia		75.8
Europe, Africa and Middle East		10.9
Latin America		10.9
North America		0.9
Cash		1.4
Top Holdings		%
Taiwan Semiconductor		9.26
Samsung Electronics		7.79
Tencent Holdings		4.93
Alibaba Group Holding		3.85
Housing Development Finance Corporation		3.27
Grupo Mexico		2.66
China Merchants Bank		2.49
Anglo American Platinum		2.38
Grupo Financiero Banorte		2.23
PT Bank Central Asia		2.04

Investment Option Commentary

The Fund fell 15.25% over the quarter, lagging the benchmark's decline of 9.88%. The bulk of the underperformance came following Russia's invasion of Ukraine at end-February, though the strategy was behind the benchmark in January when value sectors led the market.

Revaluing Abrdn's Russian holdings Novatek, Lukoil, Yandex and Sberbank to zero was a material detractor. The decision was taken due to the implementation of stringent capital controls in Russia and Western sanctions on Moscow, which at present make it impossible to realise any value from Abrdn's investments. Equally, not holding former index heavyweight Gazprom was positive. Prior to the invasion, Abrdn had an overweight position in Russia and holdings in two domestic Russian companies, which Abrdn mostly exited in the second half of February. Heading into this crisis, Russia had been one of the most compelling bottom-up stories in the emerging markets universe, with disruptive business models and huge secular growth potential.

An additional headwind for the Fund was the rotation from growth towards value stocks. Semiconductor suppliers ASML and ASM International detracted, despite their robust outlook and strong operational performance. Digital consumer companies were also hit by the rotation, with Prosus and Sea underperforming. Abrdn retains strong conviction in the long-run potential of Abrdn's holdings in emerging markets' information technology leaders.

In China, Abrdn also saw value outperforming growth stocks. The Fund's renewables exposures such as Sungrow Power Supply and NARI Technology were hurt by the rotation. However, Abrdn's conviction in the structural growth opportunity remains high, further supported by Europe's strategy to reduce its dependence on Russia as well as to decarbonise. The flare-up in Covid-19 cases also weighed on apparel maker Shenzhou International and China Tourism Group Duty Free. However, Abrdn's holdings in China Merchants Bank and China Resources Land, alongside Hong Kong-listed insurer AIA, offset some of those negative effects.

Finally, performance effects from Abrdn's exposures in the emerging market commodities complex are of note. Commodity producers were already benefiting from increased demand from the Covid-19 reopening before the war in Ukraine, which will result in significant supply disruption. For example, Russia is a big exporter of palladium and this boosted South African miner Anglo American Platinum, while copper miner Grupo Mexico was another top performer. Brazilian stock exchange operator B3 and lender Banco Bradesco rose as indirect beneficiaries of higher commodity prices and positive market sentiment.

Market Commentary

Emerging market equities fell in the first quarter, lagging developed markets, amid geopolitical and macroeconomic concerns. The widely unforeseen invasion of Ukraine by Russia triggered a sell-off in global risk assets in February. Market sentiment was dented by the near- and long-term fallout from the crisis. Commodity prices soared amid fears over supply disruptions, exacerbating pre-existing fears about inflation and increasing pressure on central banks to curb price pressures.

In this environment, commodity exporters, barring Russia, outpaced the wider asset class. Resource-rich Latin America rallied. Brazil, a leading exporter of crude oil, iron ore and soybeans, advanced on rising commodity prices and better-than-expected growth data. Middle Eastern oil-producing nations also rose. Conversely, Russian valuations collapsed following the invasion. Foreign selling remained banned.

Emerging Asia lagged. Chinese equities faced several headwinds, including the authorities' new regulatory push, a resurgence in Covid-19 outbreaks and the potential delisting of US-listed Chinese companies. South Korea's technology-heavy market was hurt by a sharp rotation away from growth stocks in January. Indian stocks outperformed, thanks in part to the country's pro-growth budget.

Outlook

Russia's invasion of Ukraine has created a supply shock in markets at a point in the economic cycle where inflation is high and policymakers have been moderately tightening to deal with the after-effects of the pandemic. But higher US rates do not pose the same problems for emerging markets as they did during the taper tantrum, as emerging market countries have been careful to maintain an orthodox

monetary policy. Many will also benefit from supply shortages of crucial commodities. Meanwhile, the potential for a counter-cyclical recovery in China remains. The government is under pressure to boost the economy and policymakers have room to act. Separately, increasing investments into an energy transition away from fossil fuels to renewables should benefit emerging market companies, which dominate in many renewable energy sources.

The portfolio remains focused on firms that have quality characteristics, including sustainable free cash flow generation and earnings growth, pricing power, low debt levels and strong ESG credentials. These characteristics should help businesses manage this period of supply disruption.

Availability

Product name	APIR
SignatureSuper*	AMP1555AU
SignatureSuper Allocated Pension*	AMP1567AU

*Closed to new investors

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