abrdn Emerging Opportunities Fund

Quarterly Investment Option Update

30 June 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 (AUD unhedged). 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 longer-term 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 Overview

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	98.5
Cash	-	1.5

Sector Allocation	%
Information Technology	25.6
Financials	24.8
Consumer Discretionary	13.2
Materials	9.7
Consumer Staples	7.2
Communication Services	6.6
Industrials	5.9
Health Care	1.7
Cash	1.5
Utilities	1.4
Energy	1.2
Real Estate	1.2

Regional Allocation	%
Asia	76.2
Latin America	15.2
Europe, Africa and Middle East	7.2
Cash	1.5

Top Holdings	%
Taiwan Semiconductor	8.77
Samsung Electronics	6.75
Tencent Holdings	6.63
Alibaba Group Holding	5.62
Housing Development Finance Corporation	3.60
JD.com	2.44
Grupo Mexico	2.39
LONGi Green Energy Technology	2.31
AIA Group Limited	2.27
PT Bank Central Asia	2.16

Investment Option Commentary

The Fund declined 4.89% over the quarter, underperforming the benchmark by 178 bps. Investors continued to flee risk assets owing to worse-than-expected US inflation and rising worries about global demand. As recessionary fears intensified, commodity prices pulled back. That said, emerging market equities remained ahead of their developed market counterparts for the year to date.

The Fund's overweight to Latin America was a material detractor over the quarter. Following a solid run since the start of the year, the region lagged in April and June as commodity prices faltered. Brazilian stock exchange operator B3 and lender Banco Bradesco fell, along with Mexican bank Banorte. E-commerce player MercadoLibre derated on the back of the deteriorating macroeconomic environment, despite having solid fundamentals, as did digital solutions consultant Globant.

From a sector perspective, the Fund's positions in materials companies, Anglo American Platinum and Grupo Mexico, underperformed. Meanwhile, core technology holdings, Samsung Electronics and Taiwan Semiconductor Manufacturing Co, saw their share prices decline over concerns about slowing end-demand for chips and consumer electronics, though on an allocation basis, the relatively light exposure to Korea and Taiwan aided performance. The Fund's non-benchmark technology holdings in the Netherlands – ASML Holding and ASM International – also sold off on broader weakness in the technology sector. Even so, Lazard's confidence in the long-term structural growth of leading semiconductor suppliers remains unchanged.

China was another key detractor, as the Fund's underweight position proved costly. However, the holdings in Chinese consumer and renewable energy performed strongly. The top stock contributors were either companies listed on the mainland or those in Hong Kong that were beneficiaries of China's gradual reopening. China Tourism Group Duty Free and condiments manufacturer Foshan Haitian Flavouring & Food were buoyed by the easing of restrictions. E-commerce giants JD.com and Alibaba as well as electrical appliance maker Midea Group also recovered on improved sentiment towards discretionary spending. Among the Fund's renewable names, LONGi Green Energy was the top stock contributor, aided by strong policy support for renewables and solid demand for global solar installations. The Fund's non-benchmark exposure to Hong Kong also added to relative returns. Brewer Budweiser APAC and insurer AIA Group rose on the improving outlook of the operating environments in both mainland China and Hong Kong.

Elsewhere in Asia, stock selection in India was positive. Fast-moving consumer goods giant Hindustan Unilever fared well, with shares recovering off a low base as investors focused on its quality.

Finally, not having exposure to oil-producing countries in the Middle East benefited performance as share prices there saw some reversal on the back of volatile energy prices.

Market Commentary

Emerging market equities continued their downtrend in the second quarter, though they fared better than developed markets. Sentiment turned increasingly pessimistic as commodity-led inflation prompted major central banks to ramp up policy tightening, triggering fears of a contraction in the global economy.

Emerging Asia outpaced the broader asset class thanks largely to China's standout performance, which was driven by strong policy support, easing Covid-related restrictions, relatively contained inflation and optimism surrounding potentially less aggressive regulatory crackdowns in the domestic technology sector. Conversely, technology-heavy markets in South Korea and Taiwan sold off on higher interest rates and growing recession fears.

Oil and commodity prices, which initially rallied on supply disruptions due to the ongoing Russia-Ukraine conflict, came under strain as the period progressed and concerns mounted that a global slowdown could dent demand. In turn, commodity-driven markets started pricing in lower commodity prices and, as a result, suffered heavy declines. Resource-rich Latin America, which posted a strong showing last quarter, was the worst-performing region. Most oil-producing nations in the Middle East also pulled back.

Outlook

Russia's invasion of Ukraine, and the subsequent supply shock in markets, dominated sentiment for most of the first half. As the Federal Reserve speeds up policy normalisation to tackle commodity-led inflation, emerging market central banks have mostly kept pace by aggressively tightening either in line with or ahead of the US central bank. However, emerging economies' currency reserves and current account positions are also in much better shape than before, and they are closer to ending their tightening cycle. Meanwhile, the potential for a counter-cyclical recovery in China remains. Beijing is under pressure to boost the economy, particularly given its 5.5% GDP growth target for 2022. Separately, increasing investments into 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 and low debt levels. Such characteristics should help them manage this period of supply disruption and cost pressure.

Availability

Product name	APIR
SignatureSuper*	AMP1555AU
SignatureSuper Allocated Pension*	AMP1567AU
Flexible Lifetime – Investments (Series 2)**	AMP2031AU

*Closed to new investors
**Closed to new and existing investors

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