Walter Scott Global Equity

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

Aims to achieve a long-term return (before fees and expenses) that exceeds the MSCI World ex-Australia Index, in Australian dollars unhedged with net dividends reinvested. The portfolio provides exposure to a concentrated portfolio of global equities by investing in securities which, in Walter Scott's opinion, offer strong and sustained earnings growth. The portfolio is actively managed using a benchmark unaware, fundamental, bottom-up and research-driven approach to build a portfolio of strong growth companies capable of generating wealth over long periods of time.

The investment approach combines detailed financial analysis with business and management analysis.

The investment portfolio is constructed with a primary focus on stock-based analysis.

The Fund Manager expects that on average, and based on long-term experience, 15 to 25% of the stocks in the portfolio will be turned over each year, which reflects the investment manager's long-term buy and hold approach. The portfolio's exposure to international assets is not hedged back to Australian dollars.

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	7 years
Relative risk rating	7 / Very High
Investment style	Growth
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100.00	97.29
Cash	0.00	2.71

Sector Allocation	%
Information Technology	32.73
Health Care	18.93
Consumer Discretionary	12.18
Industrials	11.49
Consumer Staples	8.55
Communication Services	4.63
Materials	4.43
Financials	4.34
Energy	0.00
Utilities	0.00
Real Estate	0.00

Regional Allocation	%
North America	60.44
Europe ex UK	18.26
Japan	6.69
United Kingdom	5.28
Asia ex Japan	3.84
Emerging Markets	2.77

Top Holdings	%
Microsoft Corp.	4.32
Novo Nordisk A/S	3.65
Alphabet Inc.	3.28
MasterCard Inc.	3.05
Automatic Data Processing	2.98
Edwards Lifesciences Corp.	2.92
Taiwan Semiconductor Manufacturing	2.77
AIA Group	2.76
Linde	2.74
Alimentation Couche-Tard	2.66

Investment Option Commentary

AIA Group was the largest individual contributor over the quarter, with the company's first quarter results better than expected. Across most of Asia the impact of the Omicron wave fell predominantly during the first quarter, with exponential growth in cases followed by a rapid decline. In those markets where infections fell substantially from the peak, sales activity rebounded encouragingly. Expectations that the momentum of the business should be positive going forward helped the share price.

Keyence was the largest individual detractor during the quarter, again suffering from market rotation from growth to value stocks on interest rate concerns due to sustained inflationary pressures. This was despite delivering another strong set of results as revenues and earnings came in ahead of expectations. The market focused on a declining gross margin due to rising raw material costs and to a lesser extent an accounting treatment change to assets in China.

Market Commentary

Inflation continues to rear its ugly head, with many countries now posting rates of producer and consumer price rises not seen since the 1980's (when interest rates were considerably higher than they are now). Fears continue to mount that the post-pandemic recovery is being eroded by the squeeze on consumer wallets, while supply chain hurdles remain stubbornly in place. The war in Ukraine is keeping energy prices elevated, although it is noteworthy that key industrial commodity prices such as copper, have weakened considerably over the last few months. Bond market yields have fallen slightly, reflective of increasing doubts over the vigour of the world economy, although many central banks are now focused on getting the inflation genie back in the bottle.

The US Federal Reserve hiked interest rates by 75 basis points in June, with Chairman Powell confident that the US economy is in good shape to withstand tighter monetary policy, although recent downward revisions in consumer spending numbers suggest that growth momentum is fading. In the euro zone, inflation hit an annualised rate of 8.6% in June, prompting the likelihood that the European Central Bank (ECB) will be forced to adopt a more aggressive tightening stance. It faces a tricky balancing act of trying to bring inflation under control, while not prompting a reversal of the region's post-pandemic recovery or heralding another 2009 (and beyond)-style debt crisis. A continued phenomenon has been the strength of the US dollar. This is particularly evident with respect to the yen with the Bank of Japan continuing to tolerate the plunge in the currency as it pursues its ultra-loose monetary policy. The weak yen has induced a surge in import costs and was a factor in Japan's lacklustre first-quarter GDP print, with the economy contracting an annualised 1%.

As with other major economies, manufacturing business confidence is ebbing as costs rise and growth fades, although the latest *tankan* quarterly survey showed a pick-up in service sector morale as the economy edges out of the Covid-19 containment restrictions. Bucking the trend of falling equity markets were Hong Kong and China-related equities, as the authorities began to ease some of the harsh Covid-19 countermeasures that had been deployed in both China and Hong Kong. Industrial production and exports picked up in May, although retail sales remain subdued. The Xi administration is still bent on economic remodelling, with weak construction start numbers reflective of the ongoing de-emphasising of property as an economic driver. At the same time the government has pumped up fiscal stimulus to boost lacklustre growth, whilst also showing signs of easing up on its interventions in the technology sector.

Outlook

With the probability of a significant economic downturn increasing, and central banks raising interest rates to rein in inflation, equity markets are likely to remain under pressure. Walter Scott's portfolio positioning is not based on making macroeconomic bets but is founded in an investment process that has remained unwavering since the inception of the firm. Whatever happens next, Walter Scott is focused on ensuring that the companies in the portfolio are well positioned to deliver strong long-term earnings growth. Over time and looking through current turbulence, the delivery of that earnings growth will drive portfolio returns.

Availability

Product name	APIR
SignatureSuper*	AMP1607AU
SignatureSuper Allocated Pension*	AMP1631AU

*Closed to new investors

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