

BlackRock Scientific Hedged International Alpha Tilts

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To provide returns before fees that exceed the MSCI World ex-Australia Net TR Index (hedged in AUD) by 2.5% to 3.0% pa over rolling three-year periods, while maintaining a similar level of investment risk to the index. The strategy utilises a combination of active stock selection strategies across international developed stock markets that aim for the best trade-off between returns, risk and costs.

Investment risk is managed by diversifying across many regions and countries and by holding the shares of a large number of companies within each industry. A passive currency hedge is used to convert the currency exposure of the Index back to Australian dollars. This type of hedging strategy involves the forward sale of a set of currencies in amounts that correspond to the beginning of period value of the international assets in the portfolio. The hedge is then reset periodically or as required, to account for any changes in the value of the international assets in the portfolio. When derivative positions are established, they will always be backed by cash holdings and/or underlying assets. Derivative securities will not be used to leverage exposures.

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	5 years
Relative risk rating	6 / High
Investment style	Core (Hedged)
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	99-100	99.5
Cash	0-1	0.5

Sector Allocation	%
Information Technology	17.0%
Financials	14.9%
Health Care	13.6%
Industrials	12.1%
Communication Services	10.5%
Consumer Discretionary	10.1%
Consumer Staples	7.7%
Materials	4.1%
Energy	3.8%
Real Estate	2.8%
Utilities	2.3%
Other	1.2%

Regional Allocation	%
United States	61.6%
Japan	9.2%
Canada	5.0%
France	4.7%
United Kingdom	4.5%
Switzerland	4.0%
Germany	2.6%
Netherlands	1.4%
Sweden	1.1%

Top Holdings	%
Microsoft Corp	2.6%
Apple Inc	2.5%
Amazon Com Inc	2.2%
Visa Inc	1.5%
Facebook	1.3%
Rochie Holding	1.3%

Investment Option Commentary

The international stock selection strategy struggled over the quarter with Cross Border Thematics, Sentiment and Momentum detracting. Year to date, the strategy remains ahead of its benchmark. Geographically, the US detracted the most with Momentum and Sentiment lagging while Quality and Sentiment underperformed in Europe. Sectors that detracted included Industrials, especially through overweights in European Machinery. Consumer Discretionary also detracted mostly from overweights in French Textiles Apparels and Luxury Goods and unfavourable positioning within the Hotels, Restaurants and Leisure industry in the US. Overweights in Personal Products companies also hurt the Consumer Staples sector while unfavourable positioning in US Software names were a drag on the Information Technology sector. On the positive, Communication Services made a small gain thanks to overweights in Telecommunication Services in the US and in Japan, and underweights in Energy also contributed.

Positive contributors to performance included an underweight position in Pfizer International and an overweight position in Fidelity National Info Services.

- **Pfizer International** – The pharmaceutical giant's share price fell after the company reported sales short of analysts' expectations. Management also announced that it will spin off its generic and off-patent drug segment to focus on the innovative medicines part of the business. The underweight position was driven by unfavourable Cross Border Thematics, Sentiment and Momentum insights.
- **Fidelity National Info Services** – The financial services technology company closed a \$43 billion acquisition of payment processing leader Worldpay, becoming the global leader in technology and solutions for the financial services sector. The overweight position was a result of positive Sentiment and Relative Valuation insights.
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Detractors from performance included overweight positions in Sika and Volvo.

- **Sika** – The Swiss adhesives maker posted strong sales growth of +9.6% for the first half year boosted by a recent acquisition and management expects to exceed its annual sales target, however, the share price was down over the quarter. The overweight position was driven by positive Cross Border Thematics, Sentiment and Momentum insights.
- **Volvo** – The Swedish automobile manufacturer's share price dropped despite posting results in line with expectations. The overweight position was a result of generally favourable insights, especially Sentiment and Momentum and Relative Valuation.

Market Commentary

The MSCI World Ex Australia Index gained 4.65% in unhedged AUD terms and 1.34% in fully hedged to AUD terms over the third quarter of 2019. A depreciation in the Australian dollar drove the strong performance of the unhedged international equity exposure. Most global equity markets finished the quarter higher, despite twists and turns along the way. Share markets gained in July before falling in August to then recover again in September.

Geopolitical risks and developments in US-China trade negotiations were key market drivers over the quarter. The global economy continued to expand but data is pointing to a slowing in momentum. As has often been the case in recent times, markets focused on central banks for reasons to rally. Policymakers duly delivered increased stimulus, with the US Federal Reserve (Fed) cutting interest rates by 0.25% in July and again by another 0.25% in September. US policymakers cited the risks from trade uncertainties and the global slowdown as justification for taking a more accommodative stance.

The Reserve Bank of Australia (RBA) delivered a 0.25%-rate cut in July and the European Central Bank (ECB) announced a broad package of easing measures in September. The loosening of monetary policy globally appears to be in response to growing concerns over near-term economic slowdown and below target inflation outcomes.

Availability

Product name	APIR
Flexible Lifetime Investment	AMP0839AU
Flexible Lifetime Investment (Series 2)	AMP1400AU
AMP Flexible Lifetime Super	AMP0663AU
AMP Flexible Super - Retirement account	AMP1335AU
AMP Flexible Super - Super account	AMP1464AU
CustomSuper	AMP0663AU
Flexible Lifetime - Allocated Pension	AMP0621AU
Flexible Lifetime - Term Pension	AMP0910AU
SignatureSuper	AMP0787AU
SignatureSuper Allocated Pension	AMP1139AU

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