

Aberdeen Standard Emerging Opportunities

Quarterly Investment Option Update

31 March 2020

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 Aberdeen 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

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	98.4
Cash	-	1.6

Sector Allocation	%
Energy	3.0
Materials	6.1
Industrials	1.3
Consumer Discretionary	12.7
Consumer Staples	6.5
Health Care	1.3
Financials	31.3
Information Technology	17.9
Communication Services	12.8
Utilities	0.5
Real Estate	5.0
Cash	1.6

Regional Allocation	%
Asia	76.8
Africa and Middle East	2.3
Emerging Europe	7.2
Latin America	12.2
UK	--
Cash	1.6

Top Holdings	%
Tencent Holdings	8.59
TSMC	7.40
Samsung Electronics	7.27
Aberdeen Standard SICAV I - China A Equity Fund	6.01
Ping An Insurance	4.34
HDFC	3.24
AIA Group	3.01
China Resources Land	2.85
Naspers	2.27
Vale	2.26

Investment Option Commentary

Over the period, emerging markets underperformed developed ones, albeit moderately and lagged the benchmark. Entering the sell-off, rapid capital flight had a more adverse impact on returns, particularly in falling markets that also suffered substantial currency depreciation. As such, the investment manager's overweight position to Latin America proved costly. The converse was true in Asia, where they were broadly underweight. This was due to the light exposure to both Korea and Taiwan, given their more stable currencies. Also, these North Asian markets had fared better, given their robust initial response to the outbreak.

In Latin America, their overweight to Brazil and Mexico were key detractors. In Brazil, the fledgling economic recovery was stopped in its tracks by the global slowdown, while in Mexico, the oil price war pressured the peso and damaged the country's status as an emerging market safe haven. At the stock level, poor accounting practices and management integrity hurt insurer IRB, which the investment manager sold subsequently. Meanwhile, Banco Bradesco detracted on concerns over further interest rate cuts and deteriorating asset quality, while state-owned oil producer Petrobras was hurt by the slump in oil prices.

The fund manager's exposure to China has a mixed impact on performance. Notably, Tencent was a top contributor as technology stocks proved resilient during the lockdown. Our indirect exposure to Tencent, via Prosus, also added to performance. Additionally, the ASI SICAV I China A Share Equity Fund helped performance, as several underlying holdings picked-up as the economy reignited. Other direct mainland holdings that did well included Wuxi Biologics which benefited as disruptions in Europe and in the US shifted outsourcing demand to the company. The stock also rose on expectations that it may secure clinical research projects related to covid-19 therapies. Conversely, the lack of exposure to mainland index heavyweights China Construction Bank, ICBC, along with e-commerce giants Alibaba and JD.com, hurt performance. The fund also benefited from its off-benchmark exposure to Hong Kong, particularly given the resilient currency, with holdings, such as AIA and Hong Kong Exchanges and Clearing doing well.

Elsewhere, in India, the ASI SICAV I Indian Equity Fund contributed as its high-quality underlying holdings proved defensive, while not holding some lower quality banks also helped. In contrast, Indonesia suffered a sharp currency decline and our exposure to banks and consumer stocks hurt. Astra International and BRI detracted as investors retreated amid lower interest rate and consumption expectations.

Market Commentary

Global emerging markets fell sharply in the first quarter of 2020, as markets sold off aggressively, pricing in the economic impact of the covid-19 pandemic. Governments across the world resorted to unprecedented measures to restrict movement to contain the spread of the infectious and deadly disease. These measures brought international travel to a standstill and severely hampered economic activity. Production and manufacturing indices across the world plummeted, while emerging market currencies slumped against the US dollar. Additionally, the oil price took a dive as Saudi Arabia and Russia embarked on a price war to gain market share at a time when global demand was softening.

Outlook

The investment manager remain cautious about the outlook for emerging-market equities in the near term. Given the recent market volatility and disruption to economic activity caused by the pandemic, global growth is likely to slowdown this year. Having said that, governments and policy makers' swift response in pumping liquidity into their economies is shoring up sentiment, as have pledges for more fiscal support to follow. Furthermore, they are encouraged by the effective pace of recovery after the lockdown in China where the outbreak began, and they are hopeful that global economic activity will bounce back as quickly in the second half of 2020. However, it is quite likely that earnings estimates for the year would need to be downgraded.

Given their focus on high-quality companies and sustainable businesses, they are less concerned that a single-year hit to earnings and cash flows would significantly impair their holdings' competitiveness or cause balance sheet concerns. In fact, recent results from some of their core defensive holdings have been robust and they've been reassured by their assessment of the impact from covid-19, as well as actions they're taking to mitigate losses.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1531AU
AMP Flexible Super - Retirement account	AMP1591AU
AMP Flexible Super - Super account	AMP1579AU
CustomSuper	AMP1531AU
Flexible Lifetime - Allocated Pension	AMP1543AU
Flexible Lifetime Investment (Series 2)	AMP2031AU
SignatureSuper	AMP1555AU
SignatureSuper Allocated Pension	AMP1567AU
SignatureSuper Select	AMP1555AU

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