

BlackRock Scientific Hedged International Alpha Tilts

Quarterly Investment Option Update

31 March 2020

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	99.0
Cash	0-1	1.0

Sector Allocation	%
Information Technology	20.4
Health Care	15.1
Financials	12.7
Communication Services	10.7
Consumer Discretionary	10.0
Industrials	9.8
Consumer Staples	7.7
Materials	4.1
Energy	3.5
Real Estate	3.0
Utilities	2.1
None	1.0

Regional Allocation	%
United States	66.04
Japan	7.42
United Kingdom	4.76
Switzerland	3.79
France	3.43
Germany	3.41
Canada	2.95
Netherlands	2.08
Finland	1.15

Top Holdings	%
MICROSOFT CORP	4.16
APPLE INC	3.06
AMAZON COM INC	2.70
FACEBOOK CLASS A INC	1.57
VISA INC CLASS A	1.44
ROCHE HOLDING PAR AG	1.37

Investment Option Commentary

The international stock selection strategy finished the quarter lower and underperformed its benchmark. Amongst signal insights, Relative Valuation detracted the most while Cross Border Thematics and Momentum contributed slightly. Geographically, the US detracted the most, followed by Canada and Japan while Europe contributed. Sectors that detracted the most included Real Estate, especially through unfavourable positioning with overweights in leisure and hotel REITs and underweights data centre REITs. Underweights in usually out of favour food and staples retailing performing well in North American was a drag on Consumer Staples. On the positive, Information Technology contributed the most thanks to underweights in US software names.

Positive contributors to performance included an overweight position in Microsoft and an underweight position in Boeing Co.

Microsoft – The American multinational technology company had continued to grow its cloud business Azure successfully and also benefitted from the increased workforce working from home during the coronavirus crisis. The overweight position was a result of positive Quality, Sentiment and Cross Border Thematics insights.

Boeing Co – The giant airplane manufacturer has faced a number of headwinds for some time resulting in weak results. It has now been hurt by the coronavirus and the poor outlook for the travel industry. The underweight position was driven by unfavourable signals all insight groups especially Cross Border Thematics and Momentum.

Detractors from performance included overweight positions in Park Hotels and Resorts and Citizens Financial Group.

Park Hotels and Resorts – The American leisure lodging real estate investment trust (REIT) came under pressure as the coronavirus crisis escalated and heavily impacted the hospitality industry. The overweight position was driven by positive Sentiment and Quality insights.

Citizens Financial Group – The American bank's share price dropped on no specific news and underperformed the broader market in line with its banking industry peers. The overweight position was a result of favourable views across Sentiment insights.

Market Commentary

The MSCI World Ex Australia Index declined -9.0% in unhedged AUD terms and -21.1% in fully hedged to AUD terms over the first three months of 2020.

The first quarter of 2020 was one for the history books, as the coronavirus named COVID-19 caused unprecedented medical, economic and human challenges. The World Health Organisation (WHO) declared this a global pandemic on 12 March 2020, as the virus quickly spread beyond China. At quarter-end, 190 countries reported cases of the coronavirus, with approximately 846,000 cases of the virus and 41,600 fatalities having been confirmed (compared to 10,000 cases at January month-end and 85,000 cases at February month-end). The rapid spread of the coronavirus around the globe, the economic repercussions and the high degree of uncertainty around the severity and length of this virus has led to incredible moves across equities, foreign exchange, commodities and fixed income assets. In a matter of weeks, global equity benchmarks fell from record highs into a bear market. The pace of the market declines was staggering. For example, there have been 12 selloffs in US equities of over 20% with an average duration of 16 months. The equity selloff experienced this quarter (approximately 34% from peak to trough) occurred in less than a month. A market-wide circuit breaker at the New York Stock Exchange, built to give traders a pause and dampen extreme volatility, was triggered for the first time since 1997 in early March, then triggered three more times in quick succession. Risk assets around the globe (including equities, high yield credit and emerging market assets) finished the quarter deep in the red. Perceived 'safe-haven' government bonds performed relatively better but did not provide investors much relief either.

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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