Schroder Global Value

Quarterly Investment Option Update

31 March 2020

Aim and Strategy

The option is an index unconstrained global equity strategy that aims to generate long-term returns before fees in excess of traditional capitalisation weighted global equity indices by investing in a diversified portfolio of equity and equity related securities of companies worldwide excluding Australia using a Value based investment strategy. Returns provide diversification benefits to typical global equity benchmarks and other global equity managers. Currency exposure is typically unhedged, however currency derivatives may be used with equity index futures in managing cash flows or to manage active currency positions relative to global equity indices for risk management purposes

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	7 years
Relative risk rating	6 / High
Investment style	Value
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	100	97.6
Cash	0	2.4

Sector Allocation	%
Health Care	17.9
Information Technology	17.4
Industrials	13.6
Consumer Discretionary	9.6
Insurers/Asset Mgt	7.8
Communication Services	7.1
Banks	6.4
Materials	6.2
Energy	4.2
Consumer Staples	4.1
Real Estate	2.6
Utilities	0.6
Cash	2.4

Regional Allocation	%
North America	45.9
Emerging Markets	15.7
Continental Europe	15.1
Japan	11.5
United Kingdom	6.3
Pacific ex Japan	3.1
Cash	2.4

Top Holdings	%
Roche	1.06
Merck & Co.	1.05
Bristol-Myers Squibb	1.04
Johnson & Johnson	1.04
Glaxosmithkline	1.04
Novartis	1.04
Amgen	1.03
AbbVie	1.01
Oracle	0.98

Portfolio Summary

- Whilst the investment manager focus on business quality, most notably financial strength and stability, has been very helpful during the recent market correction, the lack of market breadth and broad based underperformance of cheap stocks meant that Global Value lagged behind its reference index during the first quarter. Not owning many of the popular but relatively expensive index heavyweights such as Microsoft, Amazon and Apple was particularly detrimental, but the more significant headwind came from their holdings within the more cyclically exposed areas, including resources. Financials were another area of weakness.

- On the positive side, the portfolio's exposure to more attractively valued US and Continental European pharmaceuticals (e.g. Roche) and Japanese telecoms (e.g. NTT DoCoMo and KDDI) was beneficial due to their more defensive characteristics. Our focus on sustainable yield helped us to sidestep many of the accidental high-yielders.

Investment Option Commentary

The investment manager's stock selection within energy avoided the higher cost US producers in favour of the more diversified European integrated names, the seismic shift in the oil market adversely impacted the whole energy sector.

Financials were another area of weakness. Again, whilst Schroders are very selective within the sector, given our focus on balance sheet strength, their positions in attractively valued asset managers and life & health insurers were penalised due to their sensitivity to market volatility, the investment manager avoidance of the larger investment banks was helpful.

Schroders focus on sustainable yield helped them to sidestep many of the accidental high-yielders. Their quality adjusted yield model is designed specifically to look beyond naïve yield measures and identify dividends at risk based on companies' ability to maintain their payments in times of financial stress. They believe that this will be an important ongoing theme for investors in the year ahead as dividends are slashed or cancelled in order to bolster balance sheets.

Market Commentary

Market optimism heading into 2020 appeared unsustainable, but the scale and speed of the correction in equity markets as the coronavirus pandemic rapidly paralysed large sections of the world economy broke many historical records. The swift response from governments in terms of fiscal stimulus, combined with aggressive monetary easing and other unconventional policies, did appear to offer some support, as equities partially recovered towards the end of a tumultuous quarter. Despite this, global equities, as measured by the MSCI All Country World Index, fell by more than 21.4% (in USD terms), although the peak to trough decline between 19th February and 23rd March was as much as -34%.

In addition, a stand-off between Saudi Arabia and Russia and breakdown in OPEC supply restraints battered oil markets, all the more so as it coincided with a collapse in demand. As such, energy was the worst performing sector during the quarter, followed by areas either directly impacted by the virus (most notably, transport and leisure) or less directly via the impact on global growth and interest rates, namely financials and cyclical sectors such as materials and industrials.

There were few places for investors to hide outside of bonds and a resurgent US dollar, but more defensive areas of the equity market, namely health care, consumer staples, utilities and communications declined by less than the broader market. It was also notable that the US market held up well on a relative basis, driven by the continued outperformance of a small group of large-cap stocks. In particular, Netflix and Amazon were regarded as net beneficiaries of self-isolation, whilst Microsoft enjoyed a surge in demand for its cloud based applications. More surprising perhaps was the resilience of the other index heavyweights such as Alphabet and Facebook, as both are driven by cyclically sensitive advertising revenues. Apple also faces both disruptions to its supply-chain and weaker demand for its products. Other long term winners that are perceived as offering secular growth included Nvidia, Salesforce and Visa.

In short, despite these multi-year anointed stocks being an obvious source of liquidity during the aggressive correction, there was little evidence of a market rotation away from the themes that have dominated equities in recent years, namely the dominance of "growth" over "value" and narrow market breadth. As an illustration, the MSCI All Countries Growth Index outperformed its Value counterpart by 11.4% in Q1.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP0859AU
AMP Flexible Super - Retirement account	AMP1337AU
AMP Flexible Super - Super account	AMP1466AU
CustomSuper	AMP0859AU
Flexible Lifetime - Allocated Pension	AMP0872AU
Flexible Lifetime - Term Pension	AMP0912AU
Flexible Lifetime Investment	AMP0844AU
Flexible Lifetime Investment (Series 2)	AMP1402AU
SignatureSuper	AMP0967AU
SignatureSuper Allocated Pension	AMP1141AU

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