Future Directions International Share (Original Series)

Quarterly Investment Option Update

30 June 2020

Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the MSCI World (ex-Australia, ex-tobacco) Accumulation Index with net dividends reinvested on a rolling three-year basis, through a diversified portfolio of international shares. In certain market conditions, the portfolio may hold a higher level of cash than the 10% limit.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au

Investment Option Overview

Investment category	Global Shares
Suggested minimum investment timeframe	7 years
Relative risk rating	High
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
International shares	100
Cash	0

Actual Allocation	%
International Shares	100.20

Sector Allocation	%
Information Technology	20.55
Consumer Discretionary	14.48
Health Care	12.77
Communication Services	10.89
Financials	9.42
Industrials	7.86
Consumer Staples	6.94
Materials	4.71
Cash	4.30
Utilities	3.31
Energy	2.46
Real Estate	2.33
Others	0.00

Top Holdings	%
Microsoft Corp	3.79
Alphabet Inc	2.30
Facebook Inc	2.28
Alibaba Group Holding Ltd	2.07
NetEase Inc	2.03
Visa Inc	1.75
Tencent Holdings Ltd	1.72
Amazon.com Inc	1.47
Novartis AG	1.29
AbbVie Inc	1.17

Region Allocation	%
North America	58.36
Emerging Markets	12.89
Europe ex UK	11.23
Japan	7.33
Cash	4.30
UK	4.05
Pacific ex Japan	1.82
Others	0.02

Fund Performance

The Fund posted a strong positive absolute return and outperformed its benchmark (before fees) during the June quarter. All five of the Fund's underlying managers posted positive returns, with three managers exceeding their benchmarks, led by Orbis which was the standout performer, American Century and Arrowstreet. The Fund continues to outperform its benchmark over the longer term, including over 1, 3 and 5 years, and since inception (annualised). (All returns are before fees.)

Country allocation detracted overall from relative performance during the period. The exposures to emerging markets particularly in China detracted from the relative performance, as did an underweight allocation to the US which was the main detractor within developed markets. This more than offset the contribution from an overweight position in Australia and underweight exposure to Japan. The Fund's cash position (primarily in US dollars held by Magellan) was also a major detractor from the relative return during the period, as share markets generally rose significantly.

Sector allocation (excluding the cash position) added value. Most active positions contributed, with an overweight position in consumer discretionary and underweight exposure to financials contributing most, outweighing the negative effect of an underweight exposure to information technology which was the main detractor.

Stock selection contributed overall to performance. The largest individual contributors were overweight exposures to XPO Logistics, NetEase and Tencent Holdings.

US transport company XPO Logistics (+41%) rallied early in the period as the market continued to welcome the late March announcement that it would not go ahead with divesting several business units due to the heightened uncertainty, as well as significantly benefiting from COVID-19 fiscal stimulus. Later in the period, the market welcomed Q1 2020 results showing strong free cash flow in what is typically a tight period, and as investors became more optimistic about when COVID-19 lockdowns would be lifted.

Chinese online gaming company NetEase (+19%) gained after its Q1 2020 earnings were much better than expected due to the update of gaming during COVID-19 lockdowns.

Shares in Chinese online entertainment company Tencent Holdings (+17%) were buoyed when the company announced plans to significantly invest in digital infrastructure over the next five years in alignment with the government's desire for such a push to restart the economy. Moreover, its business is performing well during the pandemic.

The largest individual detractors were underweight positions in Apple and Amazon.com and an overweight position in Alibaba Group.

US technology giant Apple (+28%) rose along with many other technology stocks and after reporting better than expected Q2 2020 results, driven by record high numbers of active users across its iDevices, despite softness in demand for iPhones and wearables.

US e-commerce giant Amazon.com (+26%) rose strongly along with many other technology companies, continuing its stellar performance as the company is seen to be a major beneficiary of the COVID-19 pandemic, which has hastened the demise of physical retailers as more shoppers turn to the online platform for both essential as well as discretionary products.

Shares in Chinese online company Alibaba Group (-1%) lagged the broader market. This was partially the result of profit taking after a period of outperformance, with online retail sales data still healthy. However, the company is also facing increased expenses relating to COVID-19, including logistics and supply chain inefficiency.

Market Review

Global shares surged back from their March lows over the June quarter, with the MSCI World ex Australia index finishing the period up by 18.5%. This came as virus-related market panic progressively dissipated and lockdowns began to be lifted. Death rates, were also far below previous 'worst-case' scenario estimates. As businesses reopened, most governments maintained (and in some case even increased) their stimulus programmes on offer, leading to continued support for share prices. Various economic indicators also appeared to confirm a global economic recovery was indeed underway, reflected in sharp rises in business confidence and falling rates of unemployment. Contrary to the markets' bullish sentiment, the list of concerns on many investors' radars however only appeared to grow, with issues such as civil unrest in the US, the upcoming US election, Chinese tensions (with Hong Kong, the US, India and even Australia) and a rising risk of a 'second wave' of COVID-19 infections (particularly in the US) leading to a growing sense of unease. Perhaps most pressingly for shares, corporate earnings visibility remains low, resulting in many businesses being hard to value, particularly over the short-term. Emerging markets meanwhile were also very strong, driven by the same trends as broader developed markets to return 16.7% over the quarter as measured by the MSCI Emerging Markets index. (Indices quoted in local currency terms and on a total-return basis, unless otherwise stated.)

Outlook

Given a lack of earnings visibility, we believe investors should exercise some caution, particularly where prices have risen quickly. Amid changing consumer dynamics, many companies will likely struggle for some time, while stronger businesses are likely to emerge from the COVID-19 crisis with gained market share. Pressure on global economies has however begun to ease as various lockdowns and restrictions have been lifted, while highly supportive monetary and fiscal policy continues to provide solid support. While second wave fears persist and are temperamentally traded on, thereby presenting potential retraces/pullbacks, we believe the longer-term market trend will remain to the upside. As always, while the near-term direction of markets is impossible to accurately predict, we generally believe that those with a diversified portfolio of quality businesses, bought at a reasonable price, are likely to do well over the long-term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0017AU*

*Closed to new investors

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