Aberdeen Standard Emerging Opportunities

Quarterly Investment Option Update

30 June 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	5.8
Industrials	1.9
Consumer Discretionary	15.5
Consumer Staples	6.0
Health Care	1.3
Financials	27.5
Information Technology	19.6
Communication Services	13.4
Utilities	1.0
Real Estate	3.7
Cash	1.2

Regional Allocation	%
Asia	76.9
Africa and Middle East	3.0
Emerging Europe	8.6
Latin America	10.3
Cash	1.2
Asia	76.9

Top Holdings	%
Tencent Holdings	8.95
Samsung Electronics	7.88
TSMC	6.72
Aberdeen Standard SICAV I - China A Equity Fund	6.06
Ping An Insurance	3.90
HDFC	2.53
Naspers	2.35
China Resources Land	2.16
Hong Kong Exchanges & Clearing	2.12
Mercadolibre	2.07

Investment Option Commentary

The second quarter of 2020 marked the best quarterly performance for emerging markets in nearly 11 years. The option outperformed its benchmark MSCI Emerging Markets Index (gross of fees). Positive stock selection drove the outperformance over the period.

The Fund Manager's choice of holdings in China was the main driver of outperformance. E-commerce company **Meituan Dianping** was among the top contributors. The stock re-rated as investors were increasingly optimistic about the earnings potential in its food-delivery business, thanks to growing adoption at higher-end restaurants. **China Tourism Group Duty Free** (formerly China International Travel Service) also re-rated over the quarter and boosted the fund's gains. This was due to China easing lockdown measures and more favourable duty-free policies in Hainan announced towards the end of the period. Entertainment and social-media giant **Tencent** was another top performer. Its first-quarter results were helped by the pandemic-induced lockdown measures, while the outlook for its gaming revenues improved. Its peer, Alibaba, lagged following a robust run, which meant that the Fund Manager's non-holding of the stock proved beneficial. Not holding some of the more cyclical banks in China, such as ICBC and China Construction Bank, also benefited the fund due to pressure on interest margins.

Good stock selection and the overweight allocation to Brazil also helped the fund, a relief after the poor start for Brazilian stocks at the beginning of the year. E-commerce platform **Mercado Libre** was the standout performer, thanks to its solid business performance. It also benefited from the tailwinds related to Covid-19 social-distancing measures, which drove faster penetration of e-commerce services across Latin America. The stock more than doubled over the period, making it the top contributor. Iron-ore producer **Vale** also helped relative performance supported by an improving outlook for global demand and a faster-than-expected recovery in China. Electric-motor manufacturer **WEG** advanced , as it is expected to benefit from a recovery in economic activity and a growing emphasis on pollution reduction.

In Korea, **LG Chem** and **Samsung Electronics** boosted performance. LG Chem benefited as investors turned more positive about the demand for electric vehicles, while Samsung Electronics rose as memory demand held up well, and due to expectations of an improved shareholder-returns policy later this year.
On the flip side, stock selection in India hurt performance, with mortgage lender **HDFC** the chief laggard. The company was expectedly weighed down by Covid-19 restrictions, which hampered transaction levels, as well as concerns over its asset quality. **Kotak Mahindra Bank** also lagged the rally, as capital constraints weighed on the sector as a whole.

At the sector level, their insurance and real estate holdings detracted. **Ping An Insurance** and **AIA Group** fell as interest rates looked set to remain lower for the foreseeable future, while insurance sales growth was also expected to slow. Political pressures in Hong Kong presented a further challenge for AIA Group. Real estate holding **China Resources Land** was another notable laggard, as property sales and mall footfall were expected to remain subdued.

Market Commentary

Emerging markets rebounded in the June quarter, recouping significant losses from the first quarter of 2020. After initial lockdowns proved effective in stemming the spread of the Covid-19 pandemic in most affected areas, the subsequent market rally was supported by an unprecedented accommodative policy backdrop and the gradual easing of social-distancing measures and the reopening of economies. The uptick of trade and consumer activity and improving economic data bolstered hopes of a faster-than-expected economic recovery. However, a resurgence of infections towards the end of the period tempered the market's momentum.

Outlook

Emerging market equities have recouped some of their losses since the first-quarter sell-off, and several encouraging factors point towards a further rebound. These include easing lockdowns and loosening social-distancing restrictions, the re-opening of economies and highly accommodative monetary policy. However, several challenges remain, such as the risks associated with a second wave of Covid-19 infections, heightened geopolitical tensions, rising joblessness that would hinder a pick-up in consumer spending and an increased risk of bankruptcies. These will continue to weigh on corporate earnings, evidenced by the fact that several companies have revised downwards or withdrawn their forecasts for the year. As such, Aberdeen Standard are still cautious about the outlook for emerging-market equities in the near-term.

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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

*Close to new investors

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