

Schroder Global Value

Quarterly Investment Option Update

30 June 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	99.4%
Cash	0	0.6%

Sector Allocation	%
Information Technology	17.0
Health Care	15.9
Insurers & Asset Mgt	10.6
Industrials	10.6
Consumer Discretionary	9.1
Communication Services	9.0
Materials	7.2
Banks	5.9
Consumer Staples	5.4
Energy	5.3
Real Estate	2.5
Utilities	0.8
Cash	0.6

Regional Allocation	%
North America	43.5
Emerging Markets	20.3
Continental Europe	13.9
Japan	12.9
United Kingdom	6.1
Pacific ex Japan	2.6
Cash	0.6

Top Holdings	%
Price T Rowe Group Inc	1.07
Amgen Inc	1.07
Johnson & Johnson	1.05
Verizon Communications	1.04
Merck & Co. Inc	1.04
Cisco Sys Inc	1.04
AbbVie Inc	1.04
Amdocs Ltd	1.03
TSMC	1.02

Portfolio Summary

The strategy lagged behind the broader global index during the second quarter, although it did easily outperform the MSCI ACWI Value benchmark. The main detractor by some margin was a lack of exposure to the expensive, popular, mega-cap stocks which continued to benefit from the higher appetite for risk, particularly those that are perceived to be long term winners in a post-Covid world.

Investment Option Commentary

Against the backdrop of a narrow and growth orientated market, the QEP Value strategy lagged behind the broader global index during the second quarter, although it did easily outperform the MSCI ACWI Value benchmark. The main detractor by some margin was a lack of exposure to the expensive, popular, mega-cap stocks which continued to benefit from the higher appetite for risk, particularly those that are perceived to be long term winners in a post-Covid world. More specifically, stocks such as Apple, Amazon, Microsoft, Facebook and Tesla accounted for the bulk of the Fund's relative underperformance, alongside broad-based negative contributions from US technology more generally.

The Fund's holdings in pharmaceuticals were also detrimental (e.g. Biogen, Merck, Bristol Myers and Pfizer). This reflected the broader neglect of defensive areas and some consolidation of gains made earlier in the year. Biogen's underperformance during the quarter was particularly notable (-15%) as analysts lost faith in its experimental Alzheimer's drug and concerns about patent expiry. Elsewhere, the other main detractors were the strategy's higher than index holdings in Life & Health insurers, although this was offset by not holding many of the Property & Casualty stocks which also lagged. The Investment Option's holdings in Japanese telecoms (NTT DoCoMo and KDDI) were another headwind, despite their attractive valuations and robust fundamentals, as the Japanese market and less cyclical areas fell from favour.

Partially offsetting the above headwinds, the Fund Manager's longstanding underweight to utilities assisted. This is an area which their models deem fundamentally unattractive due to the fact that they are highly leveraged and overpriced, particularly in the US market. Similarly, the Fund Manager also side stepped many of the underperforming consumer staple stocks on valuation grounds. Elsewhere, being overweight miners, particularly gold stocks, was also supportive, as were their holdings in asset managers.

The strength of performance relative to the MSCI Value index reflects their more selective positioning in financials, where the Fund Manager favour asset managers over banks, avoiding many utilities and staples as well as their greater exposure to higher quality miners, particularly gold stocks

Market Commentary

Following a tumultuous first quarter, equity markets recovered strongly during Q2 as hopes of a V-shaped economic rebound increased. The MSCI All Country World Index rallied by 19.2% (in USD terms), its strongest quarterly return since 2009, which marked a 37% claw back from its March low, albeit the index remains 9% below its February high and is still down 6.3% year to date. The appetite for risk was evident in the solid gains posted by predominantly cyclical and high-beta sectors whilst defensives such as utilities, staples and health care lagged. One clear manifestation of the rotation away from defensives during the quarter was the near 10% underperformance of MSCIAC World Minimum Volatility Index.

Despite a short-lived bounce in cheap stocks mid-quarter, the continued dominance of the popular stocks drove a large wedge between MSCI Value and Growth indices, with the former lagging the latter by 12%, taking its year to date underperformance to as much as 23%. The widespread neglect of good value opportunities, even among companies with stronger fundamentals, meant that market breadth remained extremely low. Put another way, many stocks have not fully participated in the strong market recovery, a clear headwind to diversified active managers such as themselves.

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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