Schroder Global Value

Quarterly Investment Option Update

30 September 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: www.amp.com.au/performance

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	%
Health Care	19.1
Information Technology	15.5
Consumer Discretionary	12.2
Industrials	9.9
Communication Services	9.5
Insurers & Asset Mgt	9.4
Materials	7.7
Consumer Staples	4.7
Banks	4.6
Energy	4.6
Utilities	1.3
Real Estate	0.9
Cash	0.6

Regional Allocation	%
North America	46.6
Emerging Markets	20.7
Continental Europe	15.2
Japan	10.8
United Kingdom	4.6
Pacific ex Japan	1.5
Cash	0.6

Top Holdings	%
Amgen	1.12
Anthem	1.04
Ntt Docomo	1.04
Bristol-Myers Squibb	1.03
3M	1.03
Pfizer	1.02
Quest Diagnostics	1.02
Merck & Co.	1.01
Sanofi	1.00

Portfolio Summary

- Despite outperforming during September as markets corrected, the QEP Global Value strategy lagged behind its reference index during the third quarter as a whole, predominantly driven by a small group of popular stocks such as Apple, Alibaba, Tesla, Nvidia and Salesforce as well as “stay-at-home” winners such as Amazon and Zoom.

- Partially offsetting these headwinds were the holdings in miners, as well as the investment manager avoidance of defence stocks such as Boeing and Raytheon. Another preferred area has been telecoms and their long held position in NTT Docomo was rewarded.

Investment Option Commentary

Despite outperforming during September as markets corrected, the QEP Global Value strategy lagged behind its reference index during the third quarter as a whole, predominantly driven by a small group of popular stocks such as Apple, Alibaba, Tesla, Nvidia and Salesforce as well as “stay-at-home” winners such as Amazon and Zoom.

Whilst the investment manager are very selective within banks, balancing some very cheap valuations against asset quality, the underperformance of the whole sector was another headwind, notably their positions in HSBC and Industrial & Commercial Bank of China. One of their favoured industries from both a quality and valuation perspective is pharmaceuticals, which was also a drag during the quarter, in part due to political risk ahead of the US Presidential election surrounding drug price regulation. Being underweight some of the cheap but lower quality cyclical areas such as air freight, machinery and traditional retail stocks was another headwind, particularly during August when many of the prior COVID-19 losers enjoyed a modest bounce.

Partially offsetting these headwinds were their holdings in miners, as well as their avoidance of defence stocks such as Boeing and Raytheon. Another preferred area has been telecoms and their long held position in NTT Docomo was rewarded as it gained nearly a third following news that it is taking private its mobile unit in a $40bn deal.

As a more general point, the turnaround in performance during September may be a good case study of what to expect if there is a more extended correction in the months to come, most notably the rotation back into the very attractively priced stocks with solid fundamentals that have been left behind of late.

Market Commentary

Global equity markets continued to rebound during the third quarter with the MSCI All Country World Index ending the period broadly back where it started the year. Optimism around a vaccine and broadly positive economic news flow propelled the mainstream indices higher during July and August although increasing signs of a second wave of COVID-19 cases in Europe and uncertainty ahead of the US Presidential election led to a reasonable correction during September which broadly offset the gains posted during August.

Whilst there was some rotation between COVID-19 winners and losers during the quarter, the key theme by far was a continuation in leadership of a relatively small number of multi-year winners. In particular, Apple continued to establish its dominance as the largest stock in the global benchmark, gaining more than 27% (in USD terms) in Q3, whilst Amazon and Facebook, the 3rd and 4th largest stocks respectively after Microsoft, also performed strongly. By adding Google’s parent Alphabet to the group, the top five stocks in the S&P 500 now account for almost a quarter of the entire index, the highest level of concentration in the US market in six decades. These same five stocks are up over 40% on average this year and collectively trade at 31x 2021 earnings per share, a 70% premium to the remainder of the index. Both the absolute level of valuation carried by the largest stocks and their premium to the rest of the S&P 500 stands as the highest on record outside of the 1999/2000 Tech Bubble.

Unsurprisingly, given the ongoing dominance of these expensive index heavyweights, it was another poor quarter for Value, with MSCI ACWI Value Index lagging its Growth counterpart by 8%, taking its year to date underperformance to as much as 33%. The “fear of missing out” theme, which has broadly described the market this year, was clearly manifest in MSCI ACWI Momentum index also performing very strongly despite cracks appearing towards the close of the quarter as markets sold off.

Similarly, from a sectoral perspective, the trends established in the first half of the year prevailed. In particular, energy stocks remained firmly in the dog-house, particularly during September when oil prices slumped again, whilst banking stocks were the other key area of weakness on the perception that bond yields will remain low for an extended period. Defensive stocks performed better during September as the market consolidated but for the quarter as a whole they lagged, most notably utilities and healthcare. In contrast, many cyclical areas benefitted, particularly within technology (hardware, semis), consumer discretionary and industrials (including some previous COVID-19 losers such as autos, leisure, air freight and building products). Material stocks were also relatively strong across the board, thanks to firmer non-oil commodity prices.

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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