Aberdeen Standard Emerging Opportunities

Quarterly Investment Option Update

31 March 2021

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 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 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/performance

Investment Category	Global Shares
Suggested Investment timeframe	3 - 5 years
Relative risk rating	7 / Very High
Investment style	Specialist
Manager style	Single Manager

Investment Option Overview

Asset Allocation	Benchmark (%)	Actual (%)
Emerging Markets Equities	100	98.4
Cash	0	1.6

Sector Allocation	%
Energy	2.7
Materials	10.1
Industrials	5.1
Consumer Discretionary	18.5
Consumer Staples	5.0
Health Care	2.5
Financials	17.6
Information Technology	26.9
Communication Services	6.7
Utilities	1.0
Real Estate	2.3
Cash	1.6

Regional Allocation	%
Asia	76.5
Africa and Middle East	5.1
Emerging Europe	6.6
Latin America	10.2
Cash	1.6

Top Holdings	%
Taiwan Semiconductor Manufacturing	9.39
Samsung Electronics	8.84
Tencent Holdings	5.88
ALIBABA Group Holdings	5.05
Naspers	2.62
Housing Development Finance	2.55
Vale	2.54
Longi Green Energy Technology	2.46
LG Chem	2.39
TATA Consultancy	2.15

Investment Option Commentary

The first quarter of 2021 marked the fourth consecutive quarter of gains for emerging markets; the longest positive streak for the asset class in the past three years. However, by the end of the period, emerging market stocks lagged their developed market counterparts due to a sudden spike in US treasury yields that precipitated a significant value rotation. Against this backdrop, the fund lagged its benchmark.

Responding to macro-economic developments, the market rotated away from stocks that had gained from earlier structural tailwinds towards the beneficiaries of reopening and reflation. In particular, commodities exposures rebounded, though banks and industrials also performed well. Meanwhile, the spike in US treasury yields weighed on the share prices of growth-oriented companies, as investors reflected the higher discount rates into valuations. This was particularly evident in the performance of online platforms and e-commerce holdings, such as **Allegro** and **Mercadolibre**. The underweight to cyclical stocks, and preference for the more conservative and better-capitalised cyclical companies, detracted. The outperformance of high-quality materials and energy holdings, such as **Vale**, **Anglo American Platinum**, **Novatek, Ultratech Cement** and **Lukoil** could not sufficiently counteract the negative attribution effects of strong performances by stocks perceived to have weaker quality characteristics.

At the country level, the portfolio's stock selection in Korea and Taiwan detracted. In Korea, **LG Chem** and **Samsung Electronics** suffered from profit taking, though conviction in these holdings remains strong given the positive structural tailwinds for both companies. In Taiwan, **Taiwan Semiconductor Manufacturing Co** (TSMC) outperformed over most of the quarter, as the demand outlook for foundry continued to improve. But this somewhat reversed in March after Intel's announcement that it would re-enter the foundry business. On a more positive note, the burgeoning demand for semiconductors and increased capex from Intel's re-entry into foundry space boosted **ASML Holdings.**

In China, while stock selection was positive, the market suffered a sharp rotation away from high-quality consumer, renewable energy and technology names, in favour of value and cyclical companies, as the central bank moved to normalise rates. Some high-quality cyclical companies, such as **China Resources Land** and **China Merchants Bank** performed well, offsetting the negative effects from holdings caught in the rotation. These included **Midea Group** and **Longi Green Energy**. Meanwhile, **Shanghai International Airport** suffered a sharp decline in its share price on the back of revisions in its duty free contract.

In Latin America, exposure to Brazil detracted due to political interference in Petrobras, currency headwinds, and worsening Covid-19 trends. President Bolsonaro unexpectedly announced the nomination of a former General to replace the incumbent CEO. Investors retreated due to heightened uncertainty about the company's future strategy and the potential shift in government policy. The position was exited as a result.

Market Commentary

Emerging market equities got off to a notably bullish start in 2021, fuelled by the approval and rollout of several Covid-19 vaccines across the world. The inauguration of President Joe Biden in the US also lifted sentiment. Investors were optimistic that the new administration's proposed US$1.9 trillion coronavirus relief package and subsequent US$2 trillion infrastructure upgrade plan would bring forward the recovery in the world economy. However, a sudden spike in US treasury yields in towards the end of the period precipitated a significant rotation towards value and cyclical stocks. Meanwhile, ongoing US-China tensions and a third wave of Covid-19 in parts of Europe, also dampened sentiment.

Outlook

Aberdeen Standard are cautiously optimistic about the outlook for emerging market stocks. Investor interest appears to be returning to riskier assets, as seen in the rotation from growth stocks into more cyclical ones. Meanwhile, the ongoing rollout of Covid-19 vaccines is crucial in underpinning the recovery. On the policy front, it is expected that US President Joe Biden's US$1.9 trillion fiscal stimulus package will boost growth in America. Consequently, rising inflation and US Treasury yields will have an impact on emerging markets. At the same time, monetary policy approaches are diverging, with the US Federal Reserve committed to keeping rates low into 2023, while China's recovery is now robust enough to support a normalisation of policy. While some other emerging market central banks, such as Brazil, Russia and Turkey, have begun responding to inflation fears, a disorderly tightening across the asset class is not expected. Therefore, the outlook for corporate earnings remains encouraging, as the re-opening of businesses and economies continue. Upgrades to earnings forecasts are also feeding through.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1579AU*
AMP Flexible Super - Retirement	AMP1591AU*
CustomSuper	AMP1531AU*
Flexible Lifetime - Super	AMP1531AU*
Flexible Lifetime - Allocated Pension	AMP1543AU*
Flexible Lifetime - Investments (Series 2)	AMP2031AU**
SignatureSuper	AMP1555AU*
SignatureSuper Select	AMP1555AU*
SignatureSuper - Allocated Pension	AMP1567AU*

*Closed to new investors
**Closed to new and existing investors

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