Magellan Global

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

The primary objectives are to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss. The investment option seeks to invest in companies that have sustainable competitive advantages, which translate into returns on capital in excess of their cost of capital for a sustained period of time. The investment manager endeavours to acquire these companies at discounts to their assessed intrinsic value. The portfolio primarily invests in the securities of companies listed on stock exchanges around the world but will also have some exposure to cash. The portfolio can use foreign exchange contracts to facilitate settlement of stock purchases and to mitigate currency risk on specific investments within the portfolio. It is not the investment manager's intention to hedge the foreign currency exposure of the portfolio arising from investments in overseas markets.

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	Specialist
Manager style	Single

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	92.03
Cash	0-20	7.97

Regional Allocation	%
Belgium	1.02%
France	2.10%
Germany	4.55%
Netherlands	1.00%
Switzerland	7.54%
United Kingdom	3.59%
United States	72.24%
Cash	7.97%

Top Holdings	%
Microsoft Corp	7.27%
Facebook Inc	6.71%
Visa Inc	5.87%
Starbucks Corp	5.81%
Alphabet Inc	5.71%
Apple Inc	5.38%
HCA Healthcare Inc	4.64%
SAP SE	4.55%
Mastercard Inc	4.38%
Novartis AG	4.00%

Portfolio Summary

The portfolio recorded a positive return for the June quarter. The biggest contributors included the investments in Facebook, Microsoft and SAP. Facebook climbed after first-quarter sales jumped a higher-than-expected 26%, monthly visitor numbers to the main site over the three months exceeded forecasts, the company hinted it was near a settlement with US authorities over privacy violations, and its plans for a digital currency Libra were well received. Microsoft surged to record highs as March-quarter earnings exceeded expectations thanks to strong growth from the Azure cloud-computing business. SAP climbed after the German software company raised its fiscal 2019 profit forecast thanks to its thriving cloud-computing business, and prominent 'activist' shareholder Elliott Management announced it had bought a stake in SAP and endorsed the company's new plan.

The largest detractors included the investments in Alphabet and Lowe's. Alphabet declined after the House of Representatives said it was launching a broad anti-trust investigation into technology companies including Alphabet's Google. Lowe's fell after rising merchandise costs forced the home-improvement retailer to report lower-than-expected earnings for the March quarter and to reduce its full-year profit forecast.

Market Commentary

Global stocks rose for a second consecutive quarter when they surged in the three months to June after the Federal Reserve and the European Central Bank flagged fresh stimulus to protect their economies, investors grew hopeful the China-US trade war would be contained and US companies on average reported better-than-expected earnings for the March quarter. During the quarter, 10 of the 11 sectors in the MSCI World Index rose in US-dollar terms. Financials (+6.2%) climbed the most while energy (-1.6%) fell.

Outlook

Equity prices rose in the June quarter but Magellan see the balance of risks as being tilted to the downside.

While the likelihood of a deal between China and the US plummeted in May, an agreement to restart talks following the G20 meeting in June raised hopes that the two sides would ultimately settle their differences. This buoyed equity prices, as did central banks signalling their willingness to loosen monetary policy in order to counter risks to growth. But the risk persists that protracted China-US negotiations could undermine global growth so much the deterioration would not be offset by a deal or easier central bank settings.

The investment manager sees three broad scenarios for equity markets, with each having somewhat similar likelihoods but different impacts on stocks. A scenario where inflation stays contained would support equity prices, as it would give policymakers the flexibility to respond to shifting growth risks. The second situation – where downside risks to growth crystallise – would be less favourable to equities, though the blow to stocks would depend on the severity of the downturn. The final scenario is an increase in inflation that forces central banks to respond regardless of the damage to economies. This scenario would be the most challenging for equity prices.

Notwithstanding the risks confronting equities, they have reduced the cash position in the strategy from 15% to 8% over the June quarter, allocating primarily to 'defensive' stocks. This decision reflects our view that the probability of the third scenario occurring has fallen over the past six months.

Even amid the uncertainty hovering over stock markets, they are confident about the long-term outlook for the investments selected for our portfolio and the portfolio's risk profile. Many of the stocks in the portfolio benefit from being leading digital platforms, the shift to a cashless society, having a stronghold on the enterprise software market, consumption growth in emerging markets, or the dynamics of ageing populations.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1828
AMP Flexible Super - Retirement	AMP1848
AMP Flexible Super - Super	AMP1844
CustomSuper	AMP1828
Flexible Lifetime - Allocated	AMP1832
Flexible Lifetime Investment	AMP2041
SignatureSuper	AMP1836
SignatureSuper Allocated Pension	AMP1840

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