Magellan Global

Quarterly Investment Option Update

31 December 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 Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	94.12
Cash	0-20	5.88

Regional Allocation	%
Belgium	1.82
China	8.61
France	4.74
Germany	3.61
Netherlands	1.27
Switzerland	7.61
United Kingdom	3.70
United States	62.75
Cash	5.88

Top Holdings	%
Alphabet Inc	7.13
Microsoft Corp	6.77
Facebook Inc	6.56
Alibaba Group Holdings Ltd	6.48
Starbucks Corp	5.69
Visa Inc	5.34
LVMH Moet Hennessy Louis Vuitton	4.74
Novartis AG	4.22
MasterCard Inc	4.03
Yum! Brands Inc	4.03

Investment Option Commentary

The portfolio recorded a positive return in the quarter. The biggest contributors included the investments in Alibaba, Apple and HCA Healthcare. Alibaba surged after the Chinese conglomerate reported a 40% jump in revenue for the third quarter, its Singles Day online retail promotion reaped a record 268 billion yuan (US$38.3 billion), and the company raised US$11 billion via an IPO in Hong Kong. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and the easing of trade tensions between Washington and Beijing meant iPhones avoided tariffs in China. HCA Healthcare jumped on higher inpatient and outpatient surgeries for the third quarter that removed doubts about the US hospital chain's outlook raised by a disappointing second-quarter result.

The biggest detractors included the investments in Anheuser-Busch InBev and McDonald's. AB InBev fell after the world's biggest brewer said that a decline in beer sales in Brazil, China and the US slowed profit growth in the third quarter and the company said it expects only "moderate" full-year earnings growth, down from "strong" before. McDonald's fell after sales growth in the US was slower than expected for the third quarter and the company fired its respected CEO because he had a (consensual) relationship with an employee.

Market Commentary

Global stocks rose for a fourth consecutive quarter in the three months to December after the Federal Reserve cut its key rate for the third time in four months to help an economy extend its growth record well into 2020, China and the US eased up on their trade war, US companies on average reported better-than-expected earnings for the September quarter and the UK election victory for the Conservative party settled that the country would leave the EU and meant the UK avoided the radical policies proposed by Labour. During the quarter, all 11 sectors rose in US-dollar terms. Information technology (+14%) rose the most while real estate (+1.2%) rose the least. The Morgan Stanley Capital International World Index gained 8.6% in US dollars and 4.2% in Australian currency.

US stocks rose to record highs over the quarter. In October, the Fed reduced its key lending rate by a quarter point to between 1.5% and 1.75% and signaled no more imminent reductions. Financial research and data company FactSet said that for the third quarter 75% of S&P 500 companies reported earnings per share above estimates, a 'beat rate' that is above the five-year average of 72%. In December, Chinese and US trade officials justified optimism when they came to a 'phase one' pact on trade that de-escalated a tariff war, notwithstanding that tensions between Beijing and Washington rose when US Congress in November passed almost unanimously a bill compelling Washington to support the protesters in Hong Kong. Economic news released during the quarter was largely upbeat. Reports showed the US economy expanded at 2.1% in the third quarter, US factory production rebounded by 1.1% in November to post its biggest monthly increase in two years, and the jobless rate fell to a 50-year low of 3.5% in September and November. In political news, almost all Democrat lawmakers in the House of Representatives voted to impeach President Donald Trump for abuse of power and obstructing Congress but failed to gain any Republican support during the two votes. Lawmakers in December passed spending measures that avoided a government shutdown as numbers released in October showed the US federal deficit widened to a seven-year high of US$984 billion in fiscal 2019, the fourth straight annual increase. The S&P 500 Index advanced 8.5%.

Outlook

Global growth slowed in the past year, hampered by trade tensions and the waning of fiscal stimulus. In response, the Fed cut rates three times in 2019 and ended quantitative tightening, the ECB cut rates once and resumed quantitative easing and China cut lending rates. These actions should reduce the likelihood of a pronounced slowdown.

Magellan see three broad scenarios for equity markets in the coming few years. The first, which they rate about a 50% probability, is that there is no significant increase in US inflation or a sharp slowdown in global growth. However, authorities might loosen monetary policy a little if previous stimulus proves insufficient. Under this outcome, broad equity indexes would most likely provide satisfactory returns.

Notwithstanding the risks confronting equities, Magellan reduced the cash position in the strategy from 8% to 6% over the December quarter. Even amid the uncertainty hovering over stock markets, they are confident about the long-term outlook for the investments selected for their 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 China and other emerging markets, or the dynamics of ageing populations.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1828AU
AMP Flexible Super - Retirement account	AMP1848AU
AMP Flexible Super - Super account	AMP1844AU
CustomSuper	AMP1828AU
Flexible Lifetime - Allocated Pension	AMP1832AU
Flexible Lifetime Investment (Series 2)	AMP2041AU
SignatureSuper	AMP1836AU
SignatureSuper Allocated Pension	AMP1840AU

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