

Magellan Global

Quarterly Investment Option Update

31 March 2020

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	83.33
Cash	0-20	16.67

Regional Allocation	%
Belgium	1.09
China	8.58
France	2.91
Germany	3.09
Netherlands	1.02
Switzerland	7.98
United Kingdom	4.02
United States	54.64
Cash	16.67

Top Holdings	%
Microsoft Corp	7.25
Alibaba Group Holding Ltd	6.08
Alphabet Inc	5.68
Facebook Inc-A	5.35
Starbucks Corp	4.85
Novartis AG	4.25
Visa Inc	4.12
Reckitt Benckiser	4.02
Nestle SA	3.73
Crown Castle International	3.71

Investment Option Commentary

The portfolio recorded a negative return for the quarter. The biggest detractors were the investments in Yum! Brands, Starbucks, HCA Healthcare and Facebook. Yum! Brands and Starbucks fell as their outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus – though the decline in Yum! Brands first started when the owner of KFC, Pizza Hut and Taco Bell restaurants reported a 2% decline in Pizza Hut's same-store sales for the fourth quarter. HCA Healthcare dropped after elective surgeries were deferred as hospitals built capacity to respond to the pandemic and investors weighed the impact of the unprecedented jump in US unemployment on HCA's revenue mix from different payers. Facebook fell after demand for advertising fell amid the health and economic emergency.

Two investments to rise in local currency were Microsoft and Tencent. Microsoft surged to a record high over the quarter after its cloud business helped the software giant beat earnings and revenue forecasts for the fourth quarter of 2019 and then held up relatively well after it was judged a stock that would benefit from the world's switch to online due to the pandemic. Tencent rose on an improving earnings outlook and as the virus forced Chinese to work from home and engage more with the company's suite of digital services.

Market Commentary

Global stocks in the three months ended March staged their biggest quarterly decline in more than 10 years after the coronavirus that causes the illness called covid-19 escaped from China and battered global economic activity, corporate earnings and investor sentiment to such an extent the pandemic threatened to usher in a global recession. During the quarter, all 11 sectors dived in US-dollar terms. Energy (-45%) declined the most after Saudi Arabia and Russia commenced an oil price war while healthcare (-12%) fell least. The Morgan Stanley Capital International World Index fell 21% in US dollars – its biggest quarterly drop since the global financial crisis struck in the December quarter of 2008 – but lost only 9.3% in Australian currency due to this currency's depreciation.

Outlook

The covid-19 outbreak has plunged the world into an economic downturn. The key impact on equity markets will depend on the path of the virus and policymaker responses. Magellan see four different downturn scenarios.

The best scenario is a V-shaped recovery; a fleeting recession. While governments and central banks have been responding to the outbreak with greater force over time, the initial response was relatively small. Accordingly, this scenario appears unlikely.

The worst scenario is a depression, where there are massive job losses and output declines. In this case, the fiscal handout might need to be 20% to 30% of GDP. This would be the worst outcome for markets.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. The downturn after global financial recession lies between these two scenarios. At this early stage, it is challenging to predict if the current downturn will be more or less severe than the recession of 2008-2009. The eventual outcome will be heavily influenced by epidemiology and policymaker responses.

Due to the risks confronting equities, Magellan increased the cash position in the strategy from 6% to 17% over the March quarter. 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 having a stronghold on the enterprise software market, being leading digital platforms, the shift to a cashless society, consumption growth in China and other emerging markets, resilient demand given the essential nature of their services or the dynamics of ageing populations.

Index movements are in local currency.

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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