Magellan Global

Quarterly Investment Option Update

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

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	88.2
Cash	0-20	11.8

Regional Allocation	%
China	14.5
France	1.1
Germany	3.5
Switzerland	7.4
United Kingdom	4.6
United States	57.1
Cash	11.8

Top Holdings	%
Alibaba Group Holding Ltd.	8.2
Microsoft Corp	6.9
Tencent Holdings Ltd.	6.3
Alphabet Inc	5.8
Facebook Inc-A	5.4
Starbucks Corp	4.6
Reckitt Benckiser Group	4.6
Novartis AG	3.9
Xcel Energy Inc	3.7
Crown Castle International	3.7

Investment Option Commentary

The strategy recorded a positive return for the quarter. The biggest contributors were the investments in Alibaba Group, Facebook and Starbucks. Alibaba rallied after the Chinese e-commerce giant reported revenue growth of 34% in the second quarter from a year earlier as lockdowns turned Chinese to online retail, and China's economy rebounded. Facebook rose after its 11% surge in second-quarter earnings beat expectations and the social-media company said its main site has 2.7 billion users per month. Starbucks rose after the coffee chain said its businesses in China and the US were recovering well as these economies reopened.

The biggest detractors were the investments in a recently purchased stock and Novartis. Novartis fell after the health-products group refused to discuss revenue or profits prospects when revealing that sales for the first half rose 1%, the higher end of expectations.

Market Commentary

US stocks set fresh record highs after readings showed the jobs market had recovered nearly half the jobs lost when the economy was closed to restrict the pandemic, Big Tech shone and the Federal Reserve moved to a flexible average inflation target by allowing inflation to exceed 2%. The Fed's shift suggested lower interest rates for longer as it indicated the central bank would not pre-emptively raise interest rates when unemployment was low so long as inflation was under control. During the quarter, reports indicated the US economy was recovering from the record 31.4% annualised decline in the second quarter. Of note, a report showed the jobless rate fell to 8.4% in August and that the economy had added 10.6 million jobs since it shredded 22.2 million jobs in March and April when the jobless rate was 14.7% (compared with 3.5% in February). Big Tech CEOs survived a grilling from congress over the alleged anti-competitive nature of their businesses as the tech icons posted healthy earnings for the second quarter. In political news, the Democratic and Republican parties held their conventions and at quarter end polls placed Democrat presidential nominee Joe Biden ahead of President Donald Trump in the quest for the White House. The S&P 500 Index rallied 8.5%, to complete its best back-to-back quarters since 2009.

European stocks fell as reinfection rates picked up enough for restrictions to be reimposed. Of note during the quarter was that EU leaders struck an agreement to allow the EU to sell debt on a large scale for the first time so it could install a 750-billion-euro pandemic recovery fund. The Euro Stoxx 50 Index fell 1.3%. Japan's Nikkei 225 Index added 4.0% on the better global outlook as investors looked past the record annualised economic contraction of 27.8% in the second quarter and the unexpected resignation due to ill health of Prime Minister Shinzō Abe (who was replaced by Yoshihide Suga). China's CSI 300 Index surged 10.2% after a report showed the country's economy grew 3.2% in the June quarter from a year earlier, making China the first major economy to return to growth. Australia's S&P/ASX 200 Accumulation Index lost 0.4% amid concerns that Victoria's second lockdown was causing vast economic damage. The MSCI Emerging Markets Index rallied 8.7% in US dollars as key countries contained the virus and commodity prices gained.

Index movements and stock contributors and detractors are based in local-currency terms.

Outlook

The outlooks for the economy and equity markets are clouded by the ongoing threats from reinfection waves and suboptimal policy responses. Nevertheless, there has been some incremental reduction in overall risk as economies have adapted to covid-19. The next three months should provide greater insight into the near-term possibility of a vaccine or effective therapeutic, either of which might be rolled out in 2021. Alternatively, the December quarter brings with it the risk of more reinfections as the northern hemisphere economies enter winter.

A V-shaped recovery, or fleeting recession, would require a quick and successful reopening supported by policymakers, with most furloughed workers returning to their pre-pandemic hours. This scenario still appears relatively unlikely.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. Right now, the probabilities of each seem roughly similar, though further adaption to covid-19, a vaccine or effective therapeutic might tilt the probabilities to the former.

Due to a slight reduction in covid-19-related risks, they reduced the cash position in the strategy incrementally from 15% to 12% over the September quarter.

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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