

Magellan Global

Quarterly Investment Option Update

31 December 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/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	11.1
France	1.4
Germany	3.9
Switzerland	7.8
United Kingdom	4.2
United States	63.5
Cash	8.1

Top Holdings	%
Microsoft Corporation	7.0
Alphabet Inc	6.6
Tencent Holdings Ltd	5.7
Starbucks Corporation	5.5
Facebook Inc - Class A Shares	5.5
Alibaba Group Holding Ltd	5.4
Netflix Inc	4.5
Novartis AG	4.3
Reckitt Benckiser Group	4.2
SAP SE	3.9

Investment Option Commentary

The portfolio recorded a negative return for the quarter. The biggest detractors were the investments in Alibaba Group, SAP and RB. Alibaba dropped after its about-33%-owned Ant Group suspended its IPO, Chinese authorities said they would investigate the company for "suspected monopolistic conduct", key founder Jack Ma disappeared after criticising financial authorities, and the company's results for the September quarter displayed mixed results across segments. SAP dropped after Europe's largest software company lowered revenue and profit forecasts and its third-quarter result fell short of expectations as cloud revenue growth slowed. RB dropped on expectations sales for its sanitary products would drop once the pandemic is brought under control.

The biggest contributors were the investments in Alphabet, Starbucks and Tencent Holdings. Alphabet rose after its Google subsidiary's advertising revenue showed a better-than-expected rebound from the coronavirus-triggered slump and the US election outcome reduced the risk of a crackdown on Big Tech that would ensnare Google, which is already under anti-trust scrutiny by the US Department of Justice. Starbucks gained after the coffee chain, when announcing a smaller-than-expected drop in same-store sales of 9% for the fourth quarter, signalled that the worst is past. Tencent climbed after its 28% increase in revenue for the first half from a year earlier beat expectations.

Market Commentary

Global stocks soared to record highs in the December quarter after pharmaceutical companies developed a vaccine against the virus that causes the illness known as COVID-19, the Democratic party's subdued performance in the US senate appeared to rule out radical anti-business measures during the administration of president-elect Joe Biden, and US congress agreed to more fiscal stimulus. During the quarter, all 11 sectors rose. Energy (+27% in US dollars) climbed most while Consumer Staples rose least (+6.4%). The Morgan Stanley Capital International World Index soared 14% in US dollars and 5.9% in Australian currency over the quarter to give increases of 16% and 5.6% respectively for 2020.

US stocks rallied to record highs after a vaccine with 90%-plus effectiveness in achieving an immune response was announced and distributed, the election result lowered the risk of radical measures passing congress, the Federal Reserve said it would provide open-ended stimulus to help the economy, and lawmakers passed the second big fiscal package since the virus struck. These developments overcame concerns about a third wave of infections flaring up across the country and President Donald Trump's refusal to concede defeat while alleging voter fraud. The vaccine euphoria kicked off in November when Pfizer/BioNTech and Moderna announced successful phase three vaccine trials using a novel mRNA technology, while Oxford University and AstraZeneca came out with vaccines using traditional technology. In the election, the lack of a strong Democratic wave improved the outlook for profit growth because the lack of a strong showing in the senate reduced the mandate and political leeway for new laws that would reduce corporate profitability. Even though the US economy expanded at an annualised rate of 33.4% in the third quarter, more up-to-date reports showed the latest burst of infections, which took the number of Americans struck by the virus to more than 20 million, is hurting business. Retail sales, for example, fell in November, the first decline since April, while jobless claims rebounded towards year end. The S&P 500 Index added 12% over the quarter, to be up – led by Big Tech – 16% for 2020.

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

Outlook

COVID-19 and political risks have only been reduced rather than eliminated. Risks stemming from the pandemic include mutations of the virus, disruptions to supply networks, and inadequate vaccination rates. With US politics, existing laws can still be used to restrict corporate profitability. Other concerns include global political frictions such as those displayed in the US-China relationship, and that rising government debt and increases in the money supply raise financial and inflationary risks.

Due to the overall reduction in investment risks, the Fund reduced the cash position in the strategy from 12% to 8% over the December quarter.

Magellan remain 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 having sustainable competitive advantages that give them the potential to earn superior returns. Some companies have a stronghold on the enterprise software market or are leading digital platforms. Others are gaining from the shift to a cashless society, rising consumption growth in China and the dynamics of ageing populations or enjoy resilient demand given the essential nature of their services.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1844AU
AMP Flexible Super - Retirement	AMP1848AU
CustomSuper	AMP1828AU
Flexible Lifetime - Super	AMP1828AU
Flexible Lifetime - Allocated Pension	AMP1832AU
Flexible Lifetime - Investments (Series 2)	AMP2041AU
SignatureSuper	AMP1836AU
SignatureSuper - Allocated Pension	AMP1840AU

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