Magellan Global

Quarterly Investment Option Update

30 September 2021

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. 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 to 10 years
Relative risk rating	7 / Very high
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	94.1
Cash	0-20	5.9

Regional Allocation	%
China	3.9
France	2.5
Germany	4.3
Switzerland	6.9
United Kingdom	3.6
United States	72.9
Cash	5.9

Top Holdings	%
Microsoft Corporation	8.4
Alphabet Inc	6.7
Facebook Inc	6.4
Netflix Inc	5.8
Starbucks Corporation	5.4
Visa Inc	4.5
Yum! Brands Inc	4.5
SAP SE	4.3
Pepsico Inc	4.2
Intercontinental Exchange Inc	4.0

Investment Option Commentary

The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in Netflix, Alphabet and Microsoft. Netflix gained after its 19% jump in revenue from a year earlier to US$7.3 billion highlighted its success, some of its new titles proved popular, and in anticipation of the release of new seasons of popular shows in the coming months that had been delayed due to covid-19. Alphabet surged after the parent of Google posted a higher-than-expected profit of US$21.7 billion in the June quarter after online advertising rebounded. Microsoft beat expectations when the software giant reported revenue of US$46 billion for the June quarter, an increase of 21% on a year earlier, and CEO Satya Nadella said the performance showed the jump in tech spending since the pandemic began was not a one-off but indicated that businesses were digitising their operations.

The biggest detractors were the investments in Alibaba Group, Tencent Holdings and Crown Castle International. Alibaba dropped after Chinese authorities cracked down on tech with a focus on antitrust, security and inequality issues. Tencent slumped amid this crackdown that restricts gaming by children and saw the cyber-regulator fine the company for sexually suggestive content while antitrust authorities fined Tencent for unfair practices and ordered the company to end exclusive music-licensing deals. Crown Castle, a US-based owner of telecom towers, fell as rising interest rates undermined stocks that investors consider bond proxies.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Market Commentary

Global stocks ended the September quarter almost unchanged, to end a run of nine rising quarters in 10. Stocks reached record highs over the first two months of the quarter after the Federal Reserve said it wouldn't overreact to higher inflation readings, US companies delivered better-than-expected earnings reports for the second quarter, and the eurozone and Japanese economies returned to growth. But these gains eroded in September after inflation concerns grew, rising interest rates reduced the value of future profits, Congress failed to lift the US debt ceiling or pass more stimulus, worries emerged about China's economy, energy prices soared in Europe and covid-19 infections rose worldwide. During the quarter, seven of the 11 sectors fell in US-dollar terms. Materials (-5.0%) fell the most on China concerns while financials (+2.1%) rose most as higher interest rates helped bank margins. The Morgan Stanley Capital International World Index fell 0.01% in US dollars and gained 3.9% in Australian currency.

US stocks edged up as investors baked in expectations that monetary policy would stay loose for a while yet. In a key speech in August, Fed chairman Jerome Powell emphasised that rate increases were a long way off and the central bank was conscious of the economic hit stemming from surging delta cases. In September, however, Powell said inflation might last longer than thought and that while the central bank is unlikely to hike rates anytime soon it might announce plans to taper "soon". On the fiscal side, the House of Representatives failed to pass President Joe Biden's US$4.5 trillion agenda as Democrats squabbled though Congress passed a measure that kept the US government funded until December 3. Republicans in the Senate blocked moves to raise the US debt ceiling and thus kept alive the possibility the US could default, insisting Democrats had the numbers to lift the ceiling through the budget-reconciliation process. A boost for stocks was that almost 90% of companies beat expectations for the second quarter, the highest percentage of 'beats' since Refinitiv began keeping such records in 1994. Backing the Fed's view, investors regarded reports that showed consumer prices rising at a pace of about 5.3% in the 12 months to August as most likely driven by temporary supply constraints. The S&P 500 Index added 0.2%.

European stocks fell as German inflation notched a 29-year high when it reached 4.1% in the 12 months to September (while eurozone inflation stood at 3.0% in the 12 months to August), business confidence dropped and a fresh wave of covid-19 infections threatened. In better economic news, a report showed the euro area's economy expanded a revised 2.2% in the June quarter, after shrinking 0.3% in the previous three months. In political news, Germany's left-leaning Social Democrats won the greatest voting share in the general election and looked to be in the stronger position to form a coalition government with party leader Olaf Scholz as chancellor. The Euro Stoxx 50 Index eased 0.4%.

Japan's Nikkei 225 Index added 2.3% after the economy expanded a faster-than-expected 0.5% in the second quarter, after contracting in the previous three months, as Fumio Kishida became prime minister after Yoshihide Suga quit unexpectedly. China's CSI 300 Index slumped 6.8% as property developer Evergrande threatened to default, the delta variant spread, key indicators showed the economy is slowing, producer prices reached their highest since 2008, and regulators homed in on technology companies. Australia's S&P/ASX 200 Accumulation

Index rose 1.7% as companies reported healthy earnings for the period to June 30 and an end loomed for the Melbourne and Sydney lockdowns. The MSCI Emerging Markets Index dived 8.8% in US dollars as China's economy slowed and Brazil's central bank raised the key rate to 6.25% from 2% at the start of the year and signalled another increase of 100 basis points in October to slow surging inflation.

Outlook

The global economic upswing is being driven by record levels of monetary and fiscal stimulus as well as a vaccine-driven reopening. However, there are three key risks in the short to medium term.

The first risk is that the supply side of the economy takes much longer to recover than the demand side, leading to inflationary pressures that are larger or more persistent than expected. While Magellan and most central banks expect inflationary pressures to be transitory as supply chain and worker shortages are addressed, a longer-than-expected period of elevated inflation may force central banks to tighten policy faster than expected, perhaps materially so. The second risk is a covid-19 mutation that requires replacement vaccines to be developed and distributed, a process that could take three to six months. The third risk is a bursting of speculative asset-price bubbles. All three risks would prove relatively large blows for emerging markets.

Covid-19 has not changed the longer-term economic outlook. The global economy remains structurally low growth and low inflation, resulting in structurally low interest rates. What has changed is a steep rise in government debt and potentially a greater acceptance of central-bank-financed government deficits.

The equity market outlook for the next 18 months is more challenging than usual to predict. The cyclical economic upswing and policy accommodation should support equity returns, but the risks mentioned earlier could trigger a 20% or more decline in equity prices.

The portfolio's cash holding was unchanged at 6% over the past three months.

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

**Closed to new and existing investors

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