Magellan Global

Quarterly Investment Option Update

31 December 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/performance

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	7 to 10 years
Relative risk rating	7 / Very High
Investment style	Active
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	91.6
Cash	0-20	8.4

Regional Allocation	%
China	3.2%
France	1.5%
Spain	1.5%
Germany	3.7%
Switzerland	7.2%
United Kingdom	3.6%
United States	70.9%
Cash	8.4%

Top Holdings	%
Microsoft Corporation	8.7
Alphabet Inc	6.3
Netflix Inc	5.3
Starbucks Corporation	4.9
Yum! Brands Inc	4.7
Visa Inc	4.6
Pepsico Inc	4.5
Intercontinental Exchange Inc	3.9
Meta Platforms Inc	3.9
SAP SE	3.7

Investment Option Commentary

The portfolio recorded a positive return in the quarter. The biggest contributors included the investments in Microsoft, Intercontinental Exchange and PepsiCo. Microsoft surged on a 22% jump in revenue for the third quarter as its cloud business benefited from the global shift to remote work. Intercontinental Exchange rose as energy derivative volumes climbed on the back of rising energy price volatility. PepsiCo gained after the drinks and snacks company raised its forecast for full-year earnings when announcing third-quarter profit and revenue (9% 'organic' growth) numbers that beat expectations.

The biggest detractors were the investments in Alibaba Group and Meta Platforms. Alibaba dropped after the Chinese tech company announced sales figures that disappointed for a second straight quarter and lowered its fiscal outlook for 2022, which fanned concerns about slowing consumer spending in China. Still, Alibaba announced a 29% rise in revenue for the September quarter and forecast 20% to 23% growth in fiscal 2022 revenue, rather than the 27% analysts were expecting. Meta fell after the renamed Facebook warned revenues in the fourth quarter will be knocked further by Apple's privacy changes that restrict its ad-targeting, its third-quarter revenues fell short of expectations on Apple's restrictions, and the company faced a public-relations blow and possible legal difficulties after a former employee exposed issues at the social-media company and that it was losing younger audiences.

Stock contributors/detractors are based in local currency terms.

Market Commentary

Global stocks surged to record highs in the December quarter as concerns abated about the economic damage of the new Omicron covid-19 variant, US companies posted stellar earnings reports, and US Congress postponed a debt-ceiling showdown and passed more stimulus. The rise occurred even though the Federal Reserve decided to reduce its asset purchases after US inflation reached a 39-year high and inflation accelerated worldwide. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information technology (+13.2%) rose the most while communication services (-1.7%) was the sector that fell. The Morgan Stanley Capital International World Index rallied 7.8% in US dollars, to be up 21.8% for 2021. In Australian dollars, the index gained 7.1% in the quarter and 29.3% over the year.

US stocks climbed as better jobless numbers and encouraging reports on earnings, especially from the banks and Big Tech, prompted investors to brush aside concerns that inflation is being entrenched. A report showed consumer prices climbed 6.8% in the 12 months to November, the most since 1982. In response, the Federal Reserve said it would accelerate its 'tapering' of monthly bond purchases. The central bank said it would prune its asset buying such that in January it would buy only US$60 billion of Treasuries and mortgage-backed securities compared with US$120 billion a month pre-tapering, while most Fed policymakers said they were prepared to raise the US cash rate three times in 2022. While reports showed an economy at full employment (the jobless rate fell to a pandemic low of 4.2% in November), the US economy expanded at a revised annualised rate of only 2.3% during the September quarter. In political news, the House of Representatives, over the unanimous opposition of Republicans, passed the US$2.2 trillion Build Back Better Act only for the centrepiece of President Joe Biden's domestic agenda to be blocked in the Democrat-controlled Senate. The House, with some Republican support, approved a US$1.2 trillion infrastructure package that had already passed the Senate. A proposal to raise the federal government's borrowing limit by US$2.5 trillion passed both chambers of Congress just before the December 15 deadline. The S&P 500 Index soared 10.6%, to be up 26.9% for 2021.

European stocks advanced on encouraging earnings results and improved economic news. A report showed the eurozone economy expanded 2.2% in the September quarter after pandemic restrictions eased, the same speed it grew in the June quarter. A report that showed eurozone inflation reached 4.9% in the 12 months to November proved no dampener after the European Central Bank indicated it would not overreact to rising prices. The Euro Stoxx 50 Index added 6.2% over the quarter and 21% over 2021.

Japan's Nikkei 225 Index lost 2.2% in the quarter, reducing 2021's gain to 4.9%, as the new covid-19 variant prompted authorities to close the national border to foreigners and a report showed the economy shrank a larger-than-expected 0.9% in the September quarter, a contraction that prompted the re-elected Liberal Democrat government to promise US$350 billion in fresh fiscal stimulus. Australia's S&P/ASX 200 Accumulation Index rose 2.1% over the quarter (and 17.2% over 2021) as iron ore prices recovered and governments eased pandemic restrictions.

China's CSI 300 Index edged up 1.5% over the quarter (to be down 5.2% for 2021) on talk the regulatory crackdown on tech stocks has peaked. A report showed the pandemic had slowed economic growth to a 12-

month rate of 4.9% in the September quarter. The MSCI Emerging Markets Index shed 1.7% in US dollars over the quarter and 4.6% over the year as emerging countries were hit harder by the new variant.

Index movements are based in local currency terms unless stated otherwise.

Outlook

In the next 18 months or so, Magellan see two broad scenarios that could occur. Both appear equally likely.

The first is a grind higher in equity returns, driven by a smooth transition to slower economic growth on the back of a modest withdrawal of record levels of fiscal and monetary accommodation. In this scenario, equity returns will be attractive but below those achieved in recent years. The second scenario is a market slump. As well as the well-known risk of higher inflation and policy interest rates, this could also be driven by covid variants, slower-than-expected Chinese growth or tensions in the Middle East that disrupt global energy supplies. Importantly, these risks could occur around the same time.

In the medium term, Magellan believe that investors should be prepared for returns that are below those recorded in the past 20 or so years that have been helped along by a sustained reduction in interest rates. Covid-19 has not changed the longer-term economic outlook and thus 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 strategy's cash holding rose slightly to 8% over the past three months.

Availability

Product name	APIR
SignatureSuper*	AMP1836AU
SignatureSuper Allocated Pension*	AMP1840AU
Flexible Lifetime Investment (Series 2)**	AMP2041AU

*Closed to new investors
**Closed to new and existing investors

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