Magellan Global

Quarterly Investment Option Update

30-June-2016

Availability

Product name	APIR
AMP Flexible Super – Choice (Retirement)	AMP1848AU
AMP Flexible Super – Choice (Super)	AMP1844AU
CustomSuper	AMP1828AU
Flexible Lifetime – Allocated Pension	AMP1832AU
Flexible Lifetime – Super	AMP1828AU
Signature Super	AMP1836AU
Signature Super – Allocated Pension	AMP1840AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & Strategy: The primary objectives are to achieve attractive risk-adjusted returns over the medium to long-term, while minimising the risk of permanent capital loss. The option aims to outperform the MSCI World Net Total Return Index over rolling five year periods before fees and taxes.

Investment category: International Equities

Suggested Investment Timeframe: 5 to 7 years

Relative Risk Rating: Medium to High

Investment Style: Active

Asset Allocation	Benchmark (%)	Range (%)
Equities		80-100
Cash		0-20

Holdings

Industry Exposure	%
Consumer Discretionary	12.59
Consumer Staples	10.50
Health Care	8.22
Financials	8.31
Information Technology	44.01
Cash	16.38

Regional Exposure	%
Australia	2.12
France	3.16
United Kingdom	5.50
United States	68.26
Switzerland	4.58
Cash	16.38

Top Ten Securities	%
Apple Inc	5.86
Microsoft Corp	5.45
Visa Inc	4.83
Yum! Brands Inc	4.74
Alphabet Inc	4.67
Oracle Corp	4.54
Lowe's Co Inc	4.41
Intel Corp	4.10
eBay Inc	3.97
CVS Health Corp	3.95

Market Commentary

The June quarter commenced with a continuation of improving investor sentiment that began in the latter stages of March. Risk concerns abated as key commodity prices stabilised, in particular oil, together with a tempering of concerns over China's economic well-being. Major central banks retained their extraordinary monetary policy settings, in line with market expectations. Throughout June investors became preoccupied with the impending UK referendum to exit the European Union. The surprise Brexit vote result had a material impact on equity markets, effectively erasing most of the quarter's gains as capital flows moved back to a "risk-off" mode.

UK and European equity markets oscillated dramatically during June amid growing contemplation over the many implications of a Brexit event. The ensuing political uncertainty and potential impact on business and consumer confidence led to major selloffs across the key markets. The market volatility overshadowed more positive underlying signals on the region's prospects, with inflation turning positive and gross domestic product (GDP) data for the euro area indicating a positive trend. Following the Brexit vote, both the European Central Bank and Bank of England stood ready to provide additional policy support to ensure financial stability.

The US economy continued to lead the developed world on a trend of stability through most of the quarter, backed by a fairly muted quarterly corporate earnings season and the market reducing its assessed probability of a June interest rate hike by the US Federal Reserve. Weaker than expected labour market data (only an estimated 38,000 jobs created in May compared to an average of 210,000 per month over the past year) and a fairly moderate expansion in US GDP supported the case for pushing interest rate hike expectations out beyond the mid-year period. Inflation indicators remained benign while the Brexit vote acted to firm expectations of the 'lower for longer' mantra remaining in play.

Mixed signals for equity market investors through the period has seen the share prices of many high quality companies experience sharp corrections, reflecting the often indiscriminate selling seen at times in markets when there's a perception of elevated risks. In times of heightened market volatility, investors need to calmly separate the volatility in share prices from the fundamentals of a company, which may be largely unchanged. Over time, the fundamentals determine the ability of a company to generate shareholder returns. In our view, the recent volatility in markets overstate the risks for the companies we are invested in.

Investment Option Commentary

As of 30 June 2016, the Fund consisted of investments in 24 companies, compared with 25 companies held as at 31 March 2016. The top ten investments represented 46.6% of the Fund on 30 June 2016, while they represented 45.6% of the Fund on 31 March 2016. The cash position has increased to 16.4% as at 30 June 2016 from 15.3% at the end of March.

The Fund's performance fell short of the benchmark this quarter, with a number of portfolio stocks succumbing to broader market weakness. The largest contributors to returns over the quarter within the major holdings were Lowe's, YUM! Brands and Intel Corp. Lowe's delivered strong gains following the release of its Q1 earnings result. The company reported a strong 7.5% rise in same store sales over the prior corresponding period, ahead of consensus expectations. Home improvement retailers have enjoyed rising sales on the back of buoyant conditions in the US housing market and reflecting this dynamic, the company upgraded its guidance for full year earnings to US$4.11 from US$4.00 per share.

YUM! Brands, the global operator of fast food brands KFC, Pizza Hut and Taco Bell, continued to perform well this quarter after announcing another strong earnings result, highlighted by strong same-store sales in China. The company also reiterated that it is on track for the demerger of its businesses in China later this year. Meanwhile, Intel Corp weakened through the first half before recovering along with advances in banking and technology sectors.

Two of the major detractors from performance were positions in Apple and Microsoft. Microsoft weakened in April after reporting a decline in quarterly earnings. The company reported growth in revenues across its key business lines for the March quarter, although these were at levels which were generally below market expectations. Weaker earnings within the company's Productivity and Business Processes segment impacted the result, while weaker results in emerging markets and slower than anticipated technology replacement activity among its major customers limited revenue growth. Microsoft's stock price partially recovered from the earlier decline, after announcing the sale of its entry-level phone business and more significantly, announcing the acquisition of LinkedIn for US$26.2 billion.

Apple fell following the release of quarterly results. Revenue, earnings and guidance for the next quarter came in below market expectations. Apple's recent year-on-year sales trends have been weak relative to the prior period when the company experienced the highly successful iPhone 6/6+ launch. Later in the quarter, rumours continued to surface around weakness in the iPhone supply chain (the market was trying to project the impact on Apple's future sales from orders and commentary from its suppliers) which continued to weigh on sentiment. The iPhone installed base continues to grow, while its popularity and engagement remains high. At the current share price, Apple is inexpensive even without further installed base growth.

Lloyds Banking Group was a significant detractor from performance this quarter, largely due to the Brexit outcome which had a pronounced impact on many UK-focused companies. The exact economic impact of the Brexit vote will remain unclear for some time and downward pressure is likely to remain on interest rates with heightened risks for the British pound. Lloyds is well placed to meet these challenges, reflecting its significant restructuring post the financial crisis into a retail focused bank with a simple, relatively low risk, business model. Following the recent sell-off, Lloyds' is trading at a material discount to our assessment of its long-term intrinsic value, notwithstanding its near-term challenges and the lower earnings outlook resulting from the likely slowdown in UK economic activity.

Outlook

Equity markets are being influenced by a mixed set of macroeconomic and geopolitical forces that are likely to continue to weigh on sentiment. In the short term, these dynamics may continue to negatively influence share prices of some of the Strategy's investments. Against this market backdrop, the portfolio is currently positioned to take advantage of the following major investment themes:

• Advancements in artificial intelligence: We believe we are approaching a tipping point in the development of artificial intelligence. Over the longer term, advances in artificial intelligence would have profound implications for the way society functions and the businesses that ultimately succeed or fail.

• Cloud computing and big data: As organisations seek to optimise performance and flexibility across increasingly massive data sets and complex workloads, we expect entrenched global software companies in advantaged positions to lead the shift to 'cloud computing' through the development of cloud-based applications, infrastructure and services.

• Global technology platforms: The leading digital platforms have tremendous opportunities to monetise new services and products (even when they are not the originator). With high switching costs and barriers to entry, their entrenched positions are unlikely to be challenged in the foreseeable future.

• Healthcare and ageing population dynamics: The healthcare sector has attractive growth tailwinds due to rising patient volumes, increasing expenditure and large unmet healthcare needs.

• The move to a cashless society: There continues to be a strong secular shift from spending via cash and cheque to cashless forms of payments, such a credit cards, debit cards, electronic funds transfer and mobile payments. The explosion of smart and internet connected devices will accelerate this shift on a global basis.

We retain confidence in the longer term proposition for our investments and are comfortable with the Strategy's overall risk profile and construction.