Magellan Global

Quarterly Investment Option Update

31-December-2017

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	Actual (%)	Range (%)
Equities	89.71	80-100
Cash	10.29	0-20

Holdings

Industry Exposure	%
Consumer Discretionary	17.77%
Consumer Staples	13.91%
Financials	5.47%
Health Care	9.16%
Information Technology	40.20%
Real Estate	3.19%
Cash	10.29%

Regional Exposure	%
France	1.97%
Switzerland	6.84%
United Kingdom	4.08%
United States	76.81%
Cash	10.29%

Top Ten Securities	%
Apple Inc	7.54%
Alphabet Inc	6.61%
Facebook Inc-A	6.16%
Lowe's Co Inc	6.07%
Visa Inc	5.07%
Starbucks Corp	4.77%
Kraft Heinz Co	4.39%
Microsoft Corp	4.20%
Wells Fargo & Co	4.02%
HCA Holdings Inc	3.86%

Market Commentary

Global stocks set record highs as they rose for a seventh straight quarter in the December quarter as US companies overall posted higher-than-expected earnings, the internet giants surged on strong results and their upbeat outlooks, US Congress slashed the corporate tax rate, the Federal Reserve projected that it would only tighten US monetary policy slowly, and the world's major economies grew in unison for the first time in about a decade. European stocks, however, slid on political uncertainty. Ten of the 11 industry classifications within the MSCI World Index rose in US-dollar terms over the quarter. IT and materials were the best-performing sectors while utilities fell.

US stocks reached unprecedented heights as Amazon, Alphabet and Microsoft were among tech stocks that surged after posting better-than-expected earnings. The biggest rewriting of tax laws since 1986 lowered the corporate tax rate from 35% to 21%. The Fed in December raised the cash rate by 25 basis points to between 1.25% and 1.5% and maintained a projection of three rate increases over 2018. The Fed made its fifth post-crisis rate increase – and third for 2017 – on signs that the US economy is growing at close to capacity. The third reading of GDP showed the US economy expanded 3.2% over the September quarter, a pace not achieved since the first quarter of 2015, while the unemployment rate stayed at a 17-year low of 4.1% in November.

European equities struggled after Chancellor Angela Merkel's Christian Democratic Union of Germany Party was unable to form a coalition after indecisive elections in September, Italy's president in December dissolved parliament and called for elections in March that populist euro-sceptic parties are expected to do well at, and pro-independence parties won a slender majority in elections in Catalonia in December, to leave unresolved the Catalonian drive for independence from Spain.

In Asia, Japanese stocks rose after Japan's Prime Minister Shinzō Abe won a snap general election in October that signalled the country's fiscal and monetary stimulus would continue and Japan's economic expansion reached seven consecutive quarters of growth. In China, stocks rose after the Communist party's 19th congress in October cemented the leadership of Xi Jinping across all levers of the government and a report showed China's economy expanded 6.8% in the September quarter from a year earlier.

Investment Option Commentary

The largest contributors to performance included the investments in Lowe's, Apple and Microsoft. Lowe's gained after announcing higher-than-expected earnings growth for the third quarter and the US's second-largest home-improvement chain was seen as a major beneficiary of lower corporate taxes because it sources all its revenue in the US. Apple rose after its higher-than-expected quarterly revenue and profit results showed iPhones remained popular, aided by the 10-year anniversary launch of the iPhone X, and that its services and wearables businesses are performing well. Microsoft gained after margin expansion in its server software and personal computers businesses drove quarterly earnings of 84 US cents a share, a result that beat consensus and guidance. While Microsoft has performed strongly, it remains an attractive investment proposition. Its business software products dominate in their categories and the Fund expects Microsoft will lead the next generation of enterprise computing via its investment in cloud computing.

Over the quarter, stocks that lagged included investments in Sanofi, Oracle and eBay. Sanofi fell amid ongoing disputes regarding patent protections of its diabetes products and after third-quarter revenue missed estimates due to pressure on drug prices in the US. Oracle slid as guidance for next quarter's cloud-computing sales fell short of estimates. Despite lower-than-expected growth, Oracle has made significant progress transitioning to cloud computing in recent years, particularly in applications, increasing its total addressable market. eBay fell when the owner of the online auction site marginally downgraded full-year earnings-per-share guidance due to issues at its StubHub ticket-selling site.

Outlook

Abnormally loose monetary policies have created distortions in asset markets, particularly in what the fund manager would call bond-proxy equities, which are sensitive to movements in longer-term interest rates. The Fund is cautious about the outlook for these stocks. The Federal Reserve is likely to gradually increase interest rates and shrink its balance sheet as US economic growth continues. The trajectory of monetary policy tightening will depend, in part, on the expected path of US inflation, which remains below the Fed's 2% target, as well as other economic and political developments.

In Asia, North Korea's endeavours to advance its nuclear intercontinental ballistic missile capability could be destabilising for global equity markets should a diplomatic misstep by either party lead to an escalation in tensions. In Europe, Italy's general election in March could add to political uncertainty in the eurozone. In the US, President Donald Trump's protectionist rhetoric presents risks to the management of trading and political relationships, particularly if a mistake were made in relation to China.

Notwithstanding the uncertainty surrounding stock markets, the Fund is confident about the long-term outlook for the investments selected for the portfolio and the portfolio's risk profile. Many of the stocks in the portfolio benefit from the following durable investment trends:

- Consumer technology platforms: Leading digital platforms are well positioned to monetise new services and products even when they are not the originators of these items. Due to high switching costs and formidable barriers to entry, their entrenched positions are unlikely to be challenged in the foreseeable future.
- Enterprise software: Established enterprise software vendors are capitalising on their incumbency. They typically operate in concentrated markets that have high barriers to entry, enjoy network effects and have loyal customers due to the high cost of switching out of their services. The shift to cloud computing creates an opportunity for them to expand their capabilities and win a greater share of business spending.
- Healthcare and the dynamics of ageing populations: The healthcare sector enjoys favourable growth prospects due to rising patient numbers as developed populations age, higher expenditure in Western countries as more treatments are cultivated, and the prospect that rising wealth in the emerging world will allow providers to target unmet healthcare needs in these countries.
- The cashless society: Spending is shifting to cashless forms of payments such as credit cards, debit cards, electronic funds transfer and mobile payments. The explosion of smart and internet-connected devices will accelerate this shift the world over.