Magellan Global

Quarterly Investment Option Update

30-June-2018

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	81.65	80-100
Cash	18.35	0-20

Holdings

Industry Exposure	%
Consumer Discretionary	14.80%
Consumer Staples	13.08%
Financials	4.67%
Health Care	6.28%
Information Technology	39.81%
Real Estate	3.01%
Cash	18.35%

Regional Exposure	%
Germany	3.27%
Switzerland	5.96%
United Kingdom	2.63%
United States	69.78%
Cash	18.35%

Top Ten Securities	%
Alphabet Inc	6.84%
Facebook Inc	6.58%
Kraft Heinz Co	5.44%
Visa Inc	5.20%
Apple Inc	5.13%
Lowe's Co Inc	4.97%
Wells Fargo & Co	4.45%
Starbucks Corp	4.15%
MasterCard Inc	3.77%
Microsoft Corp	3.70%

Market Commentary

Global stocks rose over the June quarter, to mark their eighth gain in the past nine quarters, after companies posted higher-than-expected earnings, especially the US internet giants, the US economy headed towards its 10th year of expansion, the Federal Reserve only tightened monetary policy as expected, Italy formed a workable coalition that said it wanted to stay with the euro, and Japan's central bank promised to keep up monetary stimulus. Gains were capped when US President Donald Trump imposed import restrictions that could lead to trade wars with the EU and China.

US stocks rose on buoyant company and economic news. Financial research and data company FactSet said that about 80% of companies announced earnings per share above mean estimates, the highest rate since FactSet began tracking this measure in 2008. In economic news, the Fed, as expected, in June raised the cash rate by 25 basis points to between 1.75% and 2%, the seventh rate increase since the onset of the global financial crisis. The central bank once again signalled four rate increases would be made over 2018, implying another two before the end of the year. A report showed a Fed gauge of inflation, the core personal consumption expenditure price index, rose 2% in the 12 months to May, the first time it has hit the Fed's price target since 2011. Reports pointed to the US economy expanding briskly in the June quarter, by when the economy would have completed nine years without recession. Among highlights, the jobless rate fell to an 18-year low of 3.8% in May, while retail sales grew 0.8% over the same month, their biggest gain in six months.

European stocks gained after a left-right populist coalition took control of Italy in May after elections in March (even if it is Eurosceptic), moderate Socialist Pedro Sanchez was installed as prime minister in Spain after Mariano Rajoy lost a vote of no confidence over a corruption scandal, and inflation reached the European Central Bank target of 2%, which justified the central bank's decision to end its asset buying by year end. Stocks fell steadily from mid-April highs as concerns about a trade war with the US mounted and Angela Merkel's coalition in Germany threatened to break apart over immigration policy.

Japanese stocks rose after the Bank of Japan said it would persist with monetary stimulus, reports on employment and manufacturing showed the economy might rebound from a contraction in the first quarter and the country was judged insulated from any trade wars. Chinese stocks plunged on concerns about the growing clash with the US on trade and on signs the economy is slowing. Emerging markets struggled as tighter US monetary policy boosted the US dollar and Argentina negotiated a IMF rescue.

Investment Option Commentary

The portfolio recorded a positive return for the quarter. Stocks that performed best included the investments in Facebook, Visa and Apple. Facebook surged on a view that privacy issues surrounding user data wouldn't impede user and advertising growth, which showed gains in the first-quarter earnings report released in late May. Visa gained after higher consumer spending helped the payments company post higher-than-expected revenue growth of 11.5% and 30% earnings growth for the first quarter, which prompted it to boost guidance for fiscal 2018. Apple rallied following a result that showed an acceleration in services revenue and healthy iPhone revenue growth, an increase that was helped a few days later by news that the Warren Buffett-run Berkshire Hathaway had bought another 75 million Apple shares. Another boost was that The South China Post also reported the Chinese government has no plans to target US firms in China in response to the Trump administrations trade threats.

Stocks that lagged included the investments in Starbucks, eBay and Yum! Brands. Starbucks declined after disappointing sales growth in the US prompted the coffee chain to reduce outlets in its home market, sales growth in China disappointed and Moody's Investors Services downgraded the company's debt rating by one notch to Baa1 due to an increase in borrowing. Online retailer eBay fell after the US Supreme Court overturned a 1992 ruling that enabled internet retailers to avoid state sales taxes. Yum! Brands slid after the owner of KFC and Pizza Hut reported first-quarter comparable sales that missed estimates due to discounting across the fast-food industry.

Outlook

Global stocks might be close to record highs but there is no shortage of risks as the Fund enters the second half of 2018. Of prime concern is that the Fund Manager sees a fifty-fifty chance of a disruptive rise in US interest rates. The risk that the Federal Reserve might need to respond quickly to a faster-than-expected increase in inflationary pressures is real given the drop in the US jobless rate to an 18-year low of 3.8% in May, even if there are no signs of faster wages growth. As the outlook for the US economy remains buoyant, the unemployment rate could fall further in the near term and ignite wages growth.

Another concern is that trade tensions between the US and China have risen in recent months. While the two countries regularly discuss their differences, rhetoric has hardened lately because neither side appears willing to offer material concessions. The Fund Manager sees two risks. The first is that an extended period of trade tensions causes businesses to delay investment and hiring decisions, resulting in slower economic growth. The other is a failure to find a mutually acceptable outcome, resulting in permanent barriers to trade. As neither side would benefit from a prolonged trade war, the Fund thinks that a 'deal' might be the most likely outcome.

The formation of a Eurosceptic government in Italy following elections in March has raised the risk that the country will move towards an exit from the EU. But the new Italian government will first discuss its citizens' two main sources of frustrations – immigration and poor economic growth – with other European countries. As Italians, generally, support the EU and euro membership, these talks could lead to concessions that sufficiently reduce Italian frustrations. Both sides would need to make major concessions, however, if these aggravations were to be permanently reduced.

The US-North Korea summit in June might have reduced the relatively small chance of a nuclear confrontation between the two countries. The path to, and definition of, 'denuclearisation', however, remains the subject of future talks. As a result, the Korean peninsula might remain a source of uncertainty and risk into the medium term.

Due to these risks, the Fund held the cash position in the strategy at about 18% over the June quarter. Notwithstanding the uncertainty surrounding stock markets, the Fund Manager 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 being leading digital platforms, the shift to a cashless society, a stronghold on the enterprise software market or the dynamics of ageing populations.

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