

Magellan Global

Quarterly Investment Option Update

30 September 2018

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 and to mitigate currency risk on specific investments within the portfolio. It is not the investment manager's intention to hedge the foreign currency exposure of the portfolio arising from investments in overseas markets.

Regional Allocation	%
Germany	3.25%
Switzerland	6.16%
United Kingdom	2.70%
United States	70.58%
Cash	17.31%

Top Holdings	%
Alphabet Inc	6.82%
Facebook Inc	6.03%
Apple Inc	5.83%
Visa Inc	5.49%
Starbucks Corp	5.33%
Lowe's Co Inc	4.57%
Kraft Heinz Co	4.45%
HCA Healthcare Inc	4.27%
Microsoft Corp	4.00%
Mastercard Inc	3.98%

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 years
Relative risk rating	6 / High
Investment style	Specialist

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	82.69
Cash	0-20	17.31

Portfolio Summary

- The stocks that performed best included the investments in HCA Healthcare, Apple and Lowe's; whilst laggards included the investments in Facebook and Kraft Heinz.
- Global stocks rose over the quarter after companies posted higher-than-expected earnings.
- Magellan remain cautious on the outlook for equity markets and still see the balance of risks tilted to the downside.

Market Commentary

Global stocks rose over the September quarter, to mark their ninth gain in the past 10 quarters, after companies posted higher-than-expected earnings, the US economy expanded briskly, the Federal Reserve reaffirmed that monetary policy would only be tightened gradually and Japan's economy rebounded. Gains were capped when the US escalated its trade war with China, US bond yields rose on inflationary pressures, a higher US dollar buffeted emerging markets and investors fretted about the impasse over the UK's departure from the EU.

Outlook

Magellan remain cautious on the outlook for equity markets and still see the balance of risks tilted to the downside.

Asset prices are at, or near record levels, partly due to accommodative monetary policy. However, the Fed and European Central Bank are tightening monetary policy, which will reduce demand for bonds and other assets by about US\$1.5 trillion on an annualised basis from October 2017 to the end of this year. Magellan think that a shrinking of central-bank balance sheets of this size is unique in modern history and this drop in demand for bonds is likely to put meaningful upward pressure on long-term bond yields by early 2019. Accordingly, Magellan view this as a significant source of risk for other asset prices, including equities.

The Trump administration's fiscal stimulus is unique in that it is occurring at the end of a period of extended economic growth. The tax cuts and increased spending represent a stimulus of more than 1% of GDP for the next two years, when the unemployment rate is already close to an 18-year low. The risk is that this stimulus will increase wage pressures and fan inflation, which complicates the Fed's plans for gradual tightening of monetary policy. Similar to the reduction in bond demand, stimulus so late in an extended upturn poses a threat to asset prices.

Trade tensions between the US and its major trading partners remain high, notwithstanding the recent renegotiation of its trade pact with Canada and Mexico. In the case of China, it remains unclear whether Trump will be satisfied with a reduction in the trade deficit, or wants to preserve the US's technology advantage. If it is the latter, negotiations will take longer and the likelihood of no agreement is higher.

Due to these risks, Magellan held the cash position in the strategy at about 18% over the September quarter.

Notwithstanding the uncertainty surrounding stock markets, Magellan are 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, having a stronghold on the enterprise software market or the dynamics of ageing populations.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1828
AMP Flexible Super - Retirement	AMP1848
AMP Flexible Super - Super	AMP1844
CustomSuper	AMP1828
Flexible Lifetime - Allocated	AMP1832
Flexible Lifetime Investment	AMP2041
SignatureSuper	AMP1836
SignatureSuper Allocated Pension	AMP1840

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