Magellan Global

Quarterly Investment Option Update

31 December 2018

Aim and Strategy

The primary objectives of the Fund are to achieve attractive risk-adjusted returns over the medium to long-term, while reducing 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 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 amp.com.au. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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	81
Cash	0-20	19

Regional Allocation	%
Germany	2.89
Switzerland	6.64
United Kingdom	2.31
United States	69.16
Cash	19

Top Holdings	%
Alphabet Inc	6.52
Facebook Inc	5.43
Microsoft Corp	5.35
Visa Inc	5.32
Starbucks Corp	5.32
Apple Inc	5.08
HCA Healthcare Inc	4.21
Yum! Brands Inc	3.91
Kraft Heinz Co	3.83
Oracle Corp	3.77

Portfolio Summary

The portfolio recorded a negative return for the quarter. The stocks that struggled most included the investments in Apple, Facebook and Kraft Heinz. Apple tumbled after earnings downgrades by key suppliers raised concerns about the strength of demand for Apple's latest devices. Facebook fell after media reports attacked how top executives handled fake news, privacy issues and other incidents. Kraft Heinz slid after its cost cutting was delayed in order to support better sales growth during the third quarter.

Stocks that performed best included the investments in Starbucks, McDonald's and Yum! Brands. Starbucks surged after faster-than-expected sales growth of 4% in the Americas and 3% globally for the third quarter beat expectations, and the coffee chain said it would cut about 5% of the workers based in its headquarters in Seattle to reduce costs. McDonald's rose on higher-than-expected sales in the third quarter thanks to better performances in Australia, Canada and the UK. Yum! Brands rose after same-store sales and profit for the third quarter outdid expectations.

Market Commentary

Global stocks in the December quarter staged their worst quarterly performance in more than seven years after tighter US monetary policy, tensions between China and the US, key resignations from the US administration, and political uncertainty in Europe fanned doubts about the global economic outlook. A decline in the Australian dollar reduced losses for those who have unhedged investments in global equities. During the quarter, 10 of the 11 sectors fell in US-dollar terms. Energy (-22%) and IT (-17%) fell most while utilities (+0.5%) rose.

In December, the Fed raised the US cash rate by 25 basis points to between 2.25% and 2.5%, the fourth rate increase of 2018 and the ninth rate increase since the global financial crisis. Investors were disappointed that the Fed only reduced its forecast for rate increases in 2019 from three to two – some were hoping for none. The US ended 2018 with the jobless rate at a 49-year low of 3.7% and inflation largely contained to about 2% on key barometers.

European stocks fell as political concerns in France, Germany, Italy and the UK grew and the risk of a recession in the eurozone rose after Germany's economy contracted in the September quarter. Japanese stocks tumbled after the Bank of Japan trimmed its inflation forecast for fiscal 2020 to 1.5%, which is under its goal of 2%. Chinese stocks fell as the trade dispute with the US and a crackdown on shadow lending intensified doubts about the strength of its economy. Emerging markets overall slid on the gloomy global outlook.

Outlook

While equity prices have fallen recently, Magellan remain cautious because there are still many forces that could drive them lower still. The pre-eminent worry for global stocks is that global monetary policy has further to tighten. The US Federal Reserve is reducing the size of its balance sheet and has signalled another two rate increases in 2019, while the European Central Bank stopped expanding its balance sheet at the end of 2018. These reductions in central bank bond purchases present a risk to bond prices, which could flow through to equity prices.

This monetary tightening is occurring at a time when global economic growth has slowed and become less synchronised across the major economies. As well as tighter monetary policy, this slowing has been driven by heightened political uncertainties. In the US, the Republican Party's loss of control of the House of Representatives in the mid-term elections reduces President Donald Trump's control of Congress and might cause his actions to become more unpredictable at a time when the US-China confrontation, international trade tensions and North Korea denuclearisation talks are ongoing.

Due to these risks, Magellan held the cash position in the strategy at about 18% over the December quarter. Notwithstanding the uncertainty surrounding stock markets, Magellan are confident about the long-term outlook for the investments selected for their 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	AMP1828AU
AMP Flexible Super - Retirement account	AMP1848AU
AMP Flexible Super - Super account	AMP1844AU
CustomSuper	AMP1828AU
Flexible Lifetime - Allocated Pension	AMP1832AU
Flexible Lifetime Investment (Series 2)	AMP2041AU
SignatureSuper	AMP1836AU
SignatureSuper Allocated Pension	AMP1840AU

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