

Magellan Global

Quarterly Investment Option Update

31 March 2019

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.

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

Regional Allocation	%
Germany	4.08%
Netherlands	0.76%
Switzerland	6.86%
United Kingdom	3.47%
United States	70.28%
Cash	14.55%

Top Holdings	%
Microsoft Corp	6.83%
Alphabet Inc	6.62%
Facebook Inc	6.19%
Visa Inc	5.64%
Apple Inc	5.52%
Starbucks Corp	5.50%
Mastercard Inc	4.16%
SAP SE	4.08%
Oracle Corp	4.02%
HCA Healthcare Inc	3.95%

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	85.45
Cash	0-20	14.55

Portfolio Summary

The portfolio recorded a positive return for the March quarter. The biggest contributors included the investments in Facebook, Apple and Microsoft. Facebook surged after higher-than-expected revenue numbers for the fourth quarter of US\$16.9 billion showed users and advertisers were sticking with the social media company even though it has been troubled by privacy and other scandals. Apple gained after a sell-off triggered when key suppliers in late 2018 downgraded earnings and cast doubt on demand for Apple products was judged an overreaction. Microsoft rose after releasing quarterly earnings that showed strong growth in cloud revenues.

The two detractors were the investments in Kraft Heinz and Berkshire Hathaway. Kraft Heinz plummeted after the packaged-goods company wrote down the value of underperforming brands by US\$15.4 billion, reported earnings that fell short of expectations due to higher costs, and said it was subject to a probe by regulators. Berkshire Hathaway edged down after some of the company's biggest investments lowered revenue expectations.

Market Commentary

Global stocks staged their best quarterly performance in more than eight years in the three months to March after the Federal Reserve signalled that it no longer held to forecasts it issued in December when it indicated it expected to conduct two rate increases in 2019, the US government delayed increasing tariffs on Chinese imports and reports showed the US economy was expanding at a fast-enough pace. The surge overcame rising doubts over the eurozone economy and uncertainty over the UK's departure from the EU. During the quarter, all 11 sectors rose in US-dollar terms. IT (+20%) and real estate (+16%) rose the most while healthcare (+8.1%) rose the least. The Morgan Stanley Capital International (MSCI) World Index rallied 12%, its best performance since 2010, and surged 11% in Australian currency.

Outlook

While equity prices rebounded in the March quarter, we remain cautious due to the uncertain outlook for global growth. The two key sources of uncertainty are the China-US negotiations and US monetary policy.

The China-US negotiations are widely expected to soon result in a deal, which would be positive for global growth. However, the size of this tailwind depends on the substance of the agreement, where there is a wide range of potential outcomes. There is also a possibility that a deal is not agreed to in the short term. Disappointment either way would weigh on the global growth outlook and equity prices.

The Fed recently adopted a neutral stance on interest rates in response to the softer growth outlook. Magellan sees three broad scenarios, with each having somewhat similar likelihoods but different implications for equities. The likelihood of a growth slowdown has increased, but its impact on equities is uncertain because it depends on the net impact of slower growth and lower interest rates. The likelihood of a wage-driven inflation spike has modestly declined, but this outcome remains negative for equities. Lastly, a return to trend-like growth would be positive for equities and its likelihood is broadly unchanged.

Due to these risks, Magellan are cautiously positioned. They have modestly reduced the cash position in the strategy to 15% during the March quarter from about 18% at the end of the December quarter. Notwithstanding the uncertainty surrounding stock markets, they 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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