Magellan Global

Quarterly Investment Option Update

30 June 2022

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. 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

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	7 to 10 years
Relative risk rating	7 / Very high
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	n/a	90.9
Cash	n/a	9.1

Regional Allocation	%
France	3.8%
Germany	2.7%
Netherlands	3.0%
Spain	1.6%
Switzerland	7.9%
United Kingdom	8.5%
United States	63.5%
Cash	9.1%

Top Holdings	%
Microsoft Corporation	7.8
Visa Inc	6.0
Alphabet Inc	5.6
MasterCard Inc	5.1
McDonald's Corporation	4.5
Yum! Brands Inc	4.3
Novartis AG	4.3
Reckitt Benckiser Group	4.0
Intercontinental Exchange Inc	3.9
Nestlé SA	3.6

Investment Option Commentary

The portfolio posted a negative return for the quarter. Among the biggest detractors were the investments in Alphabet, Microsoft and Intercontinental Exchange. Alphabet, the parent of Google, dropped after first-quarter revenue growth of 20% disappointed high expectations due to poorer-than-expected ad sales in Europe and on YouTube. Microsoft slid on news the EU is probing allegations the software giant has too much market power in the cloud-computing-services market. Intercontinental Exchange fell after it announced it agreed to acquire Black Knight, a software, data and analytics company that serves the mortgage industry, for US$13.1 billion in cash and stock. While the deal will likely take over a year to receive regulatory approval, in the fund manager’s view, it will be a positive transaction for the group as it digitalises the mortgage market.

The biggest contributors were investments in Reckitt Benckiser, McDonald's and WEC Energy. The three are defensive and resilient businesses in the deteriorating economic outlook we face. All reported excellent results for the first quarter, beating market expectations and benefiting from strong pricing power and thus pass-through of cost inflation. McDonald's is also benefiting from the reopening of economies post the peak of covid-19 as patronage returns to its restaurants. WEC Energy, a US utility that supplies electricity and gas to Midwestern states, operates in a supportive regulatory environment and benefited from strong demand for gas during the US winter and growth in its 'rate base'.

Stock contributors/detractors are based in local currency terms.

Market Commentary

Global stocks fell for a second consecutive quarter in the three months to 30 June as the anticipation of tightening of monetary policy in the face of 40-year highs in inflation squeezed financial conditions. The issues confronting economies and markets remained widespread, from the Ukraine conflict and its ramifications for commodities to eurozone stability and zero-covid policy in China leading to strict lockdowns. While companies typically reported strong results during March and April, a few revealed margin hits from rapid cost increases. During the quarter, all the 11 GICS sectors fell in US-dollar terms. Consumer discretionary (-24%) fell the most while energy (-5.1%) fell least. The Morgan Stanley Capital International World Index overall fell 16% in US dollars and lost 8.5% in Australian currency.

US stocks dropped, with the S&P 500 Index down 16% over the quarter, as the prospect increased that higher interest rates and quantitative tightening by the Federal Reserve to fight inflation could send the US economy into recession. Inflation had reached 40-year highs at 8.6% in the 12 months to May, prompting the Federal Reserve to deliver the first of two rate rises so far, boosting the US cash rate by 1.25% to a range of 1.5% to 1.75%. The market is pricing a series of further rate increases to 3% or higher by year end. Surging inflation has seen US consumer sentiment, as measured by the University of Michigan, slide to its lowest since the survey began in 1952 while mortgage interest rates have risen from low levels to 14-year highs. Fed chair Jerome Powell warned the country must accept a higher risk of recession to curb inflation. A report showed the US economy unexpectedly shrank at an annualised pace of 1.6% in the first quarter, whereas investors had expected a gain of 1.1%.

European stocks slid, with the Euro Stoxx 50 Index down 12% in the quarter, as eurozone inflation set fresh record highs and the European Central Bank warned of tighter monetary policy and held an 'emergency meeting' to deal with the consequences. The European Commission downgraded its growth forecasts and increased inflation predictions due mainly to the energy crisis worsened by the Ukraine war. The UK economic outlook also deteriorated rapidly. As a report showed eurozone inflation at 8.1% in the 12 months to May, ECB President Christine Lagarde said they expect negative interest rates to end by September 2022. The ECB held an unscheduled meeting to alleviate concerns that higher borrowing costs for indebted countries could destabilise the eurozone – the ECB said it would come up with a plan to control sovereign yields. On June 30, indebted Italy sold government 10-year bonds at 3.47%, the highest yields since 2014. The EC reduced its growth forecasts for the EU and euro area for 2022 to 2.7% from 4% previously and said inflation would exceed 6% over the year. A report showed the eurozone economy grew 0.6% in the first quarter. In the UK, the Bank of England raised its key rate for a fifth consecutive month by 0.25%, to boost the key rate to 1.25%, and warned the economy would contract. In political news, Emmanuel Macron in April defeated Marine Le Pen in the French presidential elections, to make Macron the first head of state to be re-elected since Jacques Chirac in 2002. But in June France was said to have become 'ungovernable' when Macron's centrist Ensemble (Together) alliance lost its parliamentary majority in general elections that saw the far left and far right thrive, the first such defeat for a president in the fifth republic that began in 1958.

Japan's Nikkei 225 Index shed 5.1% as a report showed the Omicron variant caused growth to contract at an annualised rate of 1% in the first quarter and an energy crisis loomed. Australia's S&P/ASX 200 Accumulation Index dived 12% after iron ore prices slid and the Reserve Bank of Australia raised its key rate by 0.75% in two steps to combat inflation running at 5.1%, as the Australian Labor Party in national elections secured government after nine years in opposition. China's CSI 300 Index jumped 6.2% as Beijing implemented monetary and fiscal stimulus and large cities reopened after lockdowns enforced under a zero-covid policy. The MSCI Emerging Markets Index tumbled 12% in US dollars as the higher US dollar put pressure on countries with large debts denominated in the US currency and a global economic slowdown loomed.

Outlook

In the past 12 months, inflation pressures have proven to be more persistent than expected, leading central banks to increase the size and pace of their monetary tightenings. While this is likely to result in a slow peak in inflation and a 'soft' landing, we see three risks to this outlook.

The first risk is that consumer expectations of inflation become unhinged, triggering a wage-price cycle. This would prompt central banks to conduct more rate increases, which would put more downward pressure on economic growth. The second risk is an unexpected supply- or demand-side shock that worsens the outlooks for growth and inflation. There might be, for instance, a disruption to energy supplies or a loosening or tightening in fiscal-policy settings. The third risk is that central banks are not nimble enough in adjusting monetary policy if growth slows more than expected and inflation takes longer than expected to return to more acceptable levels.

The fund manager is cautious about the outlook for equity market returns over the next 18 or so months and on June 30 held a cash balance of 9%. As economies slow, it expects equity returns to be increasingly driven by a softening in earnings expectations rather than higher interest rates. Until the peak in interest rates and the likely path of growth become clearer, uncertainty will weigh on equity valuations.

Availability

Product name	APIR
Flexible Lifetime Investment (Series 2)**	AMP2041AU
SignatureSuper*	AMP1836AU
SignatureSuper Allocated Pension*	AMP1840AU

*Closed to new investors
**Closed to all investors

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