Magellan Global

Quarterly Investment Option Update

30 September 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

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
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	91.99
Cash	0-20	8.01

Regional Allocation	%
Belgium	2.29%
China	5.50%
France	4.36%
Germany	3.85%
Netherlands	0.96%
Switzerland	7.42%
United Kingdom	3.52%
United States	64.09%
Cash	8.01%

Top Holdings	%
Alphabet Inc	7.09%
Microsoft Corp	6.42%
Facebook Inc	6.13%
Starbucks Corp	5.61%
Alibaba Group Holdings Ltd	5.50%
Visa Inc	5.26%
Apple Inc	4.73%
LVMH Moet Hennessy Louis Vuitton	4.36%
HCA Healthcare Inc	4.09%
Yum! Brands Inc	4.01%

Investment Option Commentary

The portfolio recorded a positive return for the September quarter. The biggest contributors included the investments in Alphabet, Apple and Starbucks. Alphabet climbed after sales growth in the second quarter rebounded from a sluggish first quarter and the Google parent announced a US$25 billion share buyback. Apple gained after the company forecast robust sales growth from the new iPhone models. Starbucks surged after better-than-expected sales in the US and China helped the coffee chain record its fastest global sales growth in three years of 6% on a same-stores basis.

The biggest detractors were the investments in SAP, HCA Healthcare and Facebook. SAP fell after the company reported lower margins and a decline in growth in new cloud bookings for the second quarter.
HCA Healthcare dropped after the US hospital chain's earnings report for the second quarter disappointed due to an unfavourable shift in the medical-surgical mix of operations and more political uncertainty was priced into health stocks as Democratic presidential candidates offered different proposals to improve the US health system. Facebook slid on the increased scrutiny from federal lawmakers and federal and state regulators.
Global stocks rose for a third consecutive quarter in the three months to September after the Federal Reserve and the European Central Bank eased monetary policy, investors grew hopeful the China-US trade war would be contained and US companies on average reported better-than-expected earnings for the June quarter.
Gains were capped when Saudi Arabia's oil processing facilities were attacked by drones blamed on Iran, the UK headed towards a 'no deal' departure from the EU, Hong Kong riots directed at China grew violent, Argentina defaulted and manufacturing gauges pointed to a slowing in the world economy. The Morgan Stanley Capital International World Index rose 0.5% in US dollars but, due to a decline in the Australian dollar, gained 4.6% in Australian currency.

Market Commentary

US stocks rose after the Fed delivered its first rate reductions in 11 years, the US economic expansion became the longest in history when it entered its 121st month in July, Congress passed a deal that defused the debt-limit issue for two years, and company earnings on average beat forecasts. The Fed fulfilled expectations when it reduced its key lending rate by a quarter point in July and September to lower the range to 1.75% to 2%, though this wasn't enough for US President Donald Trump who said the "enemy" Fed led by Jerome Powell had "no guts". Trade tensions with China eased when Trump postponed some tariff increases on consumer goods from China until December, though not before Trump declared China a currency manipulator and told US companies they "should leave China". House Speaker Nancy Pelosi initiated a formal impeachment inquiry against Trump for seeking to enlist Ukraine to smear leading Democrat presidential candidate Joe Biden. In economic news, a report showed the US economy expanded only 2.0% in the second quarter. The Congressional Budget Office said the US federal budget deficit is projected to reach more than US$1 trillion in fiscal 2020, two years earlier than previously predicted. The S&P 500 Index rose 1.2%.

Outlook

The world economy heads into the last three months of 2019 beset by uncertainty. Global growth slowed in the middle of the year, weighed down by international tensions and the lagged impact of previous policy actions. However, central banks responded to these risks – the Fed cut rates twice and ended quantitative tightening while the ECB cut rates and resumed quantitative easing. These actions might not prevent slower growth, but they should reduce the likelihood of a pronounced slowdown.

Magellan see three broad scenarios for equity markets. The first, which Magellan still rate about a 50% probability, is that there is no significant increase in US inflation or a sharp slowdown in global growth, yet the potential exists for further rate cuts. Under this outcome, broad equity indexes would most likely provide satisfactory returns and stock picking is especially important. In the second scenario (about a 30% probability), global growth slows to a level that forces central banks to respond aggressively enough to make up for the political constraints on governments that hamper fiscal stimulus. Needless to say, the more economic growth slows, the worse it is for equity prices. The final scenario (about a 20% probability) is that interest rates rise on inflation concerns. A spike in interest rates would weigh on the growth outlook and potentially trigger a 20% to 30% fall in equity prices. Ongoing trade tensions and signs of slower growth have reduced the likelihood of this outcome.

Even amid the uncertainty hovering over stock markets, Magellan are confident about the long-term outlook for the investments selected for our 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, consumption growth in emerging markets, 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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