Magellan Global

Quarterly Investment Option Update

30 June 2021

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

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	7 to 10 years
Relative risk rating	6 / High
Investment style	Specialist
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	80-100	94.5
Cash	0-20	5.5

Regional Allocation	%
China	9.3
France	1.8
Germany	4.3
Switzerland	7.2
United Kingdom	3.9
United States	68.0
Cash	5.5

Top Holdings	%
Microsoft Corporation	7.8
Alphabet Inc	6.8
Facebook Inc	6.4
Starbucks Corporation	5.3
Netflix Inc	4.8
Alibaba Group Holding Ltd	4.8
Visa Inc	4.6
Tencent Holdings Ltd	4.5
SAP SE	4.3
Yum! Brands Inc	4.1

Investment Option Commentary

The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in Alphabet, Microsoft and Facebook. Alphabet rallied after the parent of Google reported that rising spending on digital ads boosted first-quarter sales to US$55.3 billion, a higher-than-expected rise of 34% from a year earlier. Microsoft rose as rising demand for PCs, gaming consoles, and digital services delivered over the cloud boosted the software giant's first-quarter sales by a higher-than-expected 19% to US$41.7 billion. As well, in April, Microsoft agreed to buy speech-recognition firm Nuance Communications for US$19.7 billion, to expand the services it can offer business customers. Facebook surged after first-quarter sales smashed expectations to rise 48% to US$26.2 billion as advertisers sought access to the social media platform's 2.9 billion users and a US judge unexpectedly dismissed two complaints against the social-media giant from the US regulator because the judge said the Federal Trade Commission failed to prove the company was a monopoly.

The biggest detractors were the investments in Eversource Energy of the US, Tencent of China and WEC Energy of the US. Eversource Energy fell after the Connecticut Public Utility Regulatory Authority slammed the utility that through subsidiaries offers electricity, natural gas and water services for its preparation for and response to Tropical Storm Isaias that hit in 2020. In a politically charged decision, the authority found that Eversource did not satisfy relevant performance standards, ordered an indefinite reduction of 90 basis points to subsidiary Connecticut Light & Power's authorised return on equity, ordered the opening of a regulatory docket to consider issuing civil penalties against the subsidiary and foreshadowed the disallowance of certain costs that the authority asserts were imprudently incurred were Eversource to seek recovery. Eversource has indicated it will appeal these findings. Tencent fell as the Chinese government stepped up regulatory scrutiny of the country's largest technology stocks. WEC Energy, which provides electricity and gas across four Midwest states, slid on concerns that utilities were most vulnerable to any rise in interest rates.

In relative terms, the portfolio underperformed the benchmark over the quarter. This reflected a modest outperformance of cyclical stocks over defensive stocks, on average, within the index. Uncertainty around the Chinese regulatory outlook weighed on Chinese technology platforms, while the portfolio's utility holdings were hampered by a company-specific regulatory decree and the threat of higher interest rates in the medium term.

Market Commentary

Global stocks soared to record highs as they rose for the ninth quarter in 10 during the three months to June after investors backed that vaccines and more government spending would drive economies, dismissed an acceleration in inflation as transitory, and thus believed statements from central banks they would keep monetary policy loose. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information technology (+12%) climbed the most on healthy earnings while utilities (-0.7%) declined on concerns that longer-term bond yields might rise. The Morgan Stanley Capital International World Index surged 7.7% in US dollars and 9.3% in Australian currency.

US stocks gained as companies, especially tech ones and the banks, reported healthy earnings reports for the first quarter, the administration of President Joe Biden announced plans for another US$4 trillion in spending (that Congress is still to approve), consumers spent as they grew in confidence, and, by the White House count, 67% of adults have received one vaccine dose. Reports, however, on inflation provoked spasmodic caution. Consumer inflation rose 5.0% in the 12 months to May, the fastest pace since 2008, while producer prices surged 6.6% in the year to May. These reports fanned talk the US Federal Reserve might rethink its loose monetary policy. A Fed survey of its policymakers show they had brought forward their expectations of when they would sanction a higher US cash rate. They (as represented by their median forecast) now expect to approve two increases in the cash rate from close to 0% by the end of 2023. The S&P 500 rallied 8.2%.

European stocks rose as countries relaxed pandemic restrictions as vaccine programs rolled out and the European Central Bank said it would keep aggressive monetary stimulus in place, though gains were limited by news that an ever-more debt-heavy eurozone economy is contracting. A report showed the eurozone economy shrank 0.3% in the March quarter, which followed a contraction of 0.6% in the December quarter. Another report showed government debt stood at 98% of eurozone GDP at the end of December. The Euro Stoxx 50 Index rose 3.7%.

Japan's Nikkei 225 Index defied the global trend and fell 1.3% after a resurgence in covid-19 infections extended restrictions and a report said the economy shrank 1.0% in the first quarter. China's CSI 300 Index rose 3.5% as a release showed the economy expanded a record 18.3% in the March quarter from a year earlier. Australia's S&P/ASX 200 Accumulation Index gained 8.3% after the major banks reported upbeat results, energy and material prices climbed (iron ore prices reached record highs), the federal government's budget for 2021-22 came with more stimulus, and a report showed the economy expanded 1.8% in the March quarter, to be larger than before the pandemic. The MSCI Emerging Markets Index increased 4.4% in US dollars on signs the world economy is recovering even as covid-19 ravaged emerging countries especially India.

Outlook

The global economic upswing appears set to last a couple of years, driven by a record level of monetary and fiscal stimulus as well as a vaccine-driven reopening. However, there are two key risks.

The first is that the supply side of the economy takes much longer to recover than the demand side, leading to inflationary pressures that are larger or more persistent than expected. While Magellan and most central banks expect inflationary pressures to be transitory, a surprise here may force central banks to tighten policy faster than expected, perhaps materially so. The second is a covid-19 mutation that requires replacement vaccines to be developed and distributed, a process that could take three to six months.

Covid-19 has not changed the longer-term economic outlook. The global economy remains structurally low growth and low inflation, resulting in structurally low interest rates. What has changed is a steep rise in government debt and potentially a greater acceptance of central-bank-financed government deficits.

The equity market outlook for the next 18 months is more challenging than usual to predict. The cyclical economic upswing and policy accommodation should support equity returns, but the two economic risks mentioned earlier could trigger a 20% or more decline in equity prices. Another potential trigger is a correction in overvalued pockets of the market such as 'meme' stocks, as this could spread to the broader equity market.

Magellan have reduced the cash holding in the fund from 15% to 6% in the past year. This reduction has been driven by the less-uncertain market outlook, particularly after the announcement of positive vaccine results in November.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1828AU
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AMP Flexible Super - Super account	AMP1844AU
CustomSuper	AMP1828AU
Flexible Lifetime - Allocated Pension	AMP1832AU
Flexible Lifetime Investment (Series 2)**	AMP2041AU
SignatureSuper	AMP1836AU
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