

Magellan Global

Quarterly Investment Option Update

31 March 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	Active
Manager style	Single Manager

Regional Allocation	%
France	1.5%
Spain	1.6%
Germany	2.9%
Switzerland	7.6%
United Kingdom	7.9%
United States	70.3%
Cash	8.2%

Top Holdings	%
Microsoft Corporation	8.2%
Alphabet Inc	6.7%
Visa Inc	5.6%
Pepsico Inc	4.8%
MasterCard Inc	4.8%
Intercontinental Exchange Inc	4.2%
Yum! Brands Inc	3.9%
McDonald's Corporation	3.9%
Novartis AG	3.9%
Nestle SA	3.8%

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	n/a	91.8
Cash	n/a	8.2

Investment Option Commentary

Over the quarter, the portfolio recorded a return of -12.4% while the MSCI World Net Total Return Index delivered a return of -8.2%. Magellan appreciates that investors expect the portfolio to provide downside protection through most market declines. Magellan believes that recent portfolio changes will strengthen the portfolio's ability to attain the strategy's long-term objectives of competitive returns while avoiding permanent capital loss. The fund's long-term returns have been achieved by assembling a portfolio of resilient businesses that produce compounded returns that are acquired at what Magellan regards as a material discount to their long-term prospects.

The March quarter was characterised by outsized share-price responses to any earnings announcements that surprised investors. The fund is a long-term investor in businesses with above-average long-term prospects. Thus, the fund is well positioned for the long term, even allowing for volatility in shorter term share-price movements.

During the quarter, three portfolio holdings announced earnings results and provided updated outlooks that contained unexpected earnings downgrades. These were Netflix, Meta Platforms and Starbucks:

- Netflix fell over 30% during the quarter after the streaming service said it expected near-term subscriber growth to slow and profit margins to narrow.
- Meta fell over 30% after the owner of Facebook offered only a weak revenue forecast due to Apple privacy restrictions inhibiting the reach and effectiveness of its advertising and its Facebook site suffered its first drop in regular users in part due to the popularity among the young of TikTok.
- Starbucks faced a number of issues during the quarter and dropped over 20%. Starbucks has a significant exposure to China and the covid-19 issues that plague consumption have held back sales, while in the US Starbucks is more exposed to wage inflation than its franchise-model counterparts (such as other portfolio holdings McDonald's and Yum! Brands). Additionally, the CEO resigned with Howard Schulz (co-founder and prior CEO) inserted as Interim CEO and subsequent to quarter-end the company has announced the suspension of its sizeable buyback program.

While these near-term share price falls have been amplified in the current environment, the value of the long-term compounding of returns remains extremely attractive for advantaged businesses over longer horizons despite short-term volatility. For example:

Company	10 Year Local Return (p.a.)	10 Year Multiple	No. of Drawdowns > -10%*
Microsoft	28%	12x	15
Visa	23%	8x	13
Yum! Brands	11%	3x	15

* >-10% Drawdown finishes when there is a recovery of >10% and then resets for the next observation.

Stock contributors/detractors are based in local currency terms.

Market Commentary

Global stocks tumbled in the March quarter after Russia's invasion of Ukraine heightened uncertainty about the global economic outlook and boosted energy and grain prices in a world where inflation is at decade highs, and the Federal Reserve embarked on the first of an expected series of rate increases to quell US inflation which is at its highest in 40 years. During the quarter, eight of the 11 sectors fell in US-dollar terms. Consumer discretionary (-11%) plunged the most while energy (+30%) soared most. The Morgan Stanley Capital International World Index dropped 5.2% in US dollars and 8.2% in Australian currency.

US stocks slid as bond yields surged, companies said higher inflation would curb margins and investors readied for up to another 11 US rate increases by the end of 2023. Inflation reached 7.9% in the 12 months to February, the fastest pace since 1982. Soon after, the Fed raised the US cash rate by 0.25% from close to zero. Projections released after the central bank's policy-setting board meeting showed the median board member expects to authorise another 11 rate increases of 25 basis points by the end of 2023 that would lift the key rate

to 2.8%. Fed Chair Jerome Powell further boosted bond yields when he warned the central bank might increase the cash rate in steps of 50 basis points if inflation stayed high. The S&P 500 Index lost 4.9%.

European stocks fell as higher inflation prompted the European Central Bank to warn it would tighten monetary policy even though the Russian invasions of Ukraine raised prospects of a eurozone recession, boosted energy and grain prices and prompted sanctions designed to wreck Russia's economy. Eurozone inflation accelerated to a record high of 5.8% in the 12 months to February. The ECB signalled it was more worried about high inflation than slowing economic growth when it said it would phase out its bond-buying program by September or even sooner, overriding previous guidance the purchases would last until October at least. The Bank of England in March lifted its key rate by 0.25% to 0.75%, marking three rate increases in three months, to curb inflation that reached 6.2% in the 12 months to February, its highest in three decades. The Euro Stoxx 50 Index plunged 9.2%.

Japan's Nikkei 225 Index lost 3.4% amid global uncertainty. Australia's S&P/ASX 200 Accumulation Index, however, gained 2.2% as commodity and energy prices rose, reports showed the economy was strong, and the government delivered a generous budget as it readied for an election in May. China's CSI 300 Index dived 14.5% after covid-19 infections prompted lockdowns, investors speculated that sanctions against its ally Russia could spread to China and after a crisis in property slowed economic growth to a 12-month rate of 4% in the December quarter. The MSCI Emerging Markets Index lost 7.3% in US dollars as Russia's economic outlook collapsed and there was talk that higher US bond yields would lead to sovereign defaults.

Outlook

More persistent than expected, inflationary pressures are causing central banks to accelerate their tightening of monetary policy. This was a key source of investment market uncertainty and volatility in the quarter, and it is likely to persist in the short term. Russia's invasion of Ukraine was an additional source of uncertainty and amplified inflationary pressures while placing downward pressure on the growth outlook.

Major turning points in monetary policy have historically only occurred once or twice a decade and have two broad impacts on investment returns. The first is slower growth, which will ultimately weigh on earnings growth. The second is elevated uncertainty around the economic and earnings outlooks, with these outlooks more sensitive to other shocks.

In the medium term and beyond, Magellan thinks investors should be prepared for market returns that are below those recorded in the past 20 or so years. 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.

Overall, the short- to medium-term outlook for markets is more uncertain than usual. As a result, the portfolio holds cash at 8%.

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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