

# Magellan High Conviction Fund

ARSN: 164 285 947

## Fund Facts

Portfolio Manager	Hamish Douglass and Chris Wheldon
Structure	Global Equity Fund
Inception Date	Magellan High Conviction Fund: 1 July 2013 Magellan High Conviction Fund Class B: 15 November 2017
Management & Administration Fee <sup>1</sup>	Magellan High Conviction Fund: 1.50% per annum Magellan High Conviction Fund Class B: 0.78% per annum
Buy/Sell Spread <sup>1</sup>	0.10%/0.10%
Fund Size <sup>2</sup>	AUD \$580.9 million
Distribution Frequency	Annually at 30 June
Performance Fee <sup>1</sup>	Magellan High Conviction Fund: 10.0% of the excess return of the units of the Fund above the Absolute Return performance hurdle (10% per annum).  Magellan High Conviction Fund Class B: 20% of the excess return of Class B Units above the Absolute Return performance hurdle (10% per annum). The performance fee for Class B Units is subject to a cap of 2.22% per annum.  Performance fees are subject to a high water mark.

<sup>1</sup>All fees are inclusive of the net effect of GST<sup>2</sup>Includes High Conviction Fund and High Conviction Fund Class B units.

## Fund Features

- Unconstrained, long-only, highly concentrated
- High quality global equity strategy
- High individual stock exposure – 8 to 12 stocks
- Ability to actively hedge currency exposures, currently 40% hedged to AUD<sup>†</sup>
- Maximum cash position of 50%
- Magellan High Conviction Fund \$10,000 minimum initial investment; Magellan High Conviction Fund Class B \$100,000 minimum initial investment

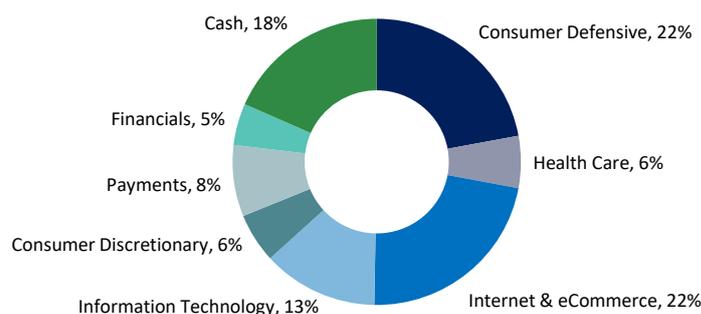
## Performance Chart growth of AUD \$10,000\*



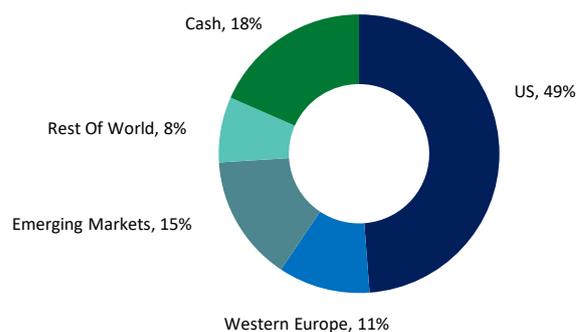
## Top 5 Holdings

In alphabetical order	Sector <sup>#</sup>
Alphabet Inc	Internet & eCommerce
Facebook Inc-A	Internet & eCommerce
Kraft Heinz Co	Consumer Defensive
Starbucks Corp	Consumer Defensive
Visa Inc	Payments

## Sector Exposure by Source of Revenue<sup>#</sup>



## Geographical Exposure by Source of Revenue<sup>#</sup>



## Fund Performance\*

	Magellan High Conviction Fund (%)	Magellan High Conviction Fund Class B <sup>^</sup> (%)	Magellan Global Fund (%)
1 Month	-0.2	0.0	0.3
3 Months	6.6	6.3	9.0
6 Months	13.8	13.9	17.1
1 Year	22.5		25.5
3 Years (% p.a.)	14.5		12.0
5 Years (% p.a.)	17.8		15.9
Since Inception (% p.a.)	17.4	13.9	

<sup>^</sup> The Nov '17 Class B return calculation has been corrected by +0.10%, the impact of this change is reflected in the since inception return.

<sup>†</sup> The Fund is currently exercising its ability to hedge some of the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian dollars.

<sup>\*</sup> Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 1 July 2013. Magellan High Conviction Class B inception 15 November 2017. Returns denoted in AUD.

<sup>#</sup> Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio.

## Market Commentary

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Global stocks rose over the September quarter, to mark their ninth gain in the past 10 quarters, after companies posted higher-than-expected earnings, the US economy expanded briskly, the Federal Reserve reaffirmed that monetary policy would only be tightened gradually and Japan's economy rebounded. Gains were capped when the US escalated its trade war with China, US bond yields rose on inflationary pressures, a higher US dollar buffeted emerging markets and investors fretted about the impasse over the UK's departure from the EU.

US stocks reached unprecedented heights in September as companies reported strong earnings growth and the economy hummed. Financial research and data company FactSet said that 80% of S&P 500 companies announced earnings per share for the second quarter that beat estimates – a 'beat rate' that is the highest since FactSet began tracking this measure in 2008. In September, the Fed raised the US cash rate by a quarter point to between 2% and 2.25% and, as expected, signaled another five rate increases into 2020. The Fed made its eighth post-crisis rate increases on signs that the US economy was growing at close to capacity. Over the three months, reports showed the US economy completed nine years of consecutive growth (June 2009 to June 2018) when it expanded an annualised 4.2% in the June quarter, its fastest pace in four years. The US jobless rate stayed close to the 18-year low of 3.8% set in May and consumer confidence hit an 18-year high in September (as measured by the Conference Board). Gains were capped when the US and China tit-for-tat tariff enactments widened to about half their traded goods and 10-year US government bond yields rose 21 basis points over the three months to 3.06% on inflation concerns.

European stocks rose after European companies posted higher-than-expected earnings, US and European trade tensions eased and Sweden's mainstream parties held off populists in elections. In July, US President Donald Trump and EC President Jean-Claude Juncker met and agreed to "work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods", a statement that boosted hopes the US and EU would avoid a trade war. Sweden's centrist parties did better than expected in the country's election to prevent the populist Sweden Democrats from holding a pivotal, rather than nuisance, position in negotiations to form a government, even though the mainstream parties failed to win enough support to immediately mould a coalition. Gains were capped when the EU rejected the latest withdrawal agreement offered by the UK and Italy's new populist government said it was aiming for a budget deficit of 2.4% in 2019, three times the shortfall of the previous government and in breach of EU budget requirements for indebted governments. Reports showed the eurozone and EU economies expanded 0.4% in the second quarter, the same rate as for the first quarter.

Japanese stocks rose as the economy bounced back to expand 1.9% in the June quarter, after contracting in the previous quarter, and pro-stimulus Prime Minister Shinzō Abe overcame a corruption scandal to win a third term as leader of the Liberal Democratic Party, which allows him to stay in office for three more years. In China, stocks struggled amid concerns about the trade war with the US and as signs emerged the economy is cooling. Emerging markets fell as the collapse in Argentina's and Turkey's currencies presaged financial crises in these countries and Brazil's presidential election in October created uncertainty.

## Fund Commentary

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The portfolio recorded a positive return for quarter. The stocks that performed best included the investments in HCA Healthcare and Apple. HCA rallied after the US hospital chain reported higher-than-expected profits and revenue for the second quarter and raised guidance for the full year due to higher patient numbers and an increase in higher-paying procedures. Apple surged (to become the first US company with a market value in excess of US\$1 trillion) after the consumer-technology company recorded higher-than-expected earnings for the third quarter and boosted its sales forecast for the fourth quarter due to the high demand for iPhones and other services.

Stocks that lagged included the investments in Facebook and Kraft Heinz. Facebook slid after management said slower revenue growth and higher costs would reduce profit margins from about 45% to about 35%, the Instagram founders left and the company revealed that 50 million accounts had been hacked. Kraft Heinz fell after issuing lower earnings guidance for fiscal 2018 even though management indicated renewed focus on improving organic growth.