Magellan Core Global Fund

(MANAGED FUND) (TICKER: MCSG)

A diversified global equity portfolio of 70-90 of the world's best companies

ARSN 645 515 082 APIR MGE381AU AS AT 31 MARCH 2024

Fund Features

- A portfolio of high-quality securities that is actively constructed and rebalanced quarterly
- Integrated quality framework to identify companies with sustained competitive advantages, and with a forward-looking view to the evolution in technology, consumer behaviour and other fundamental impacts on businesses
- Rebalanced quarterly, and continuously monitored, to ensure relevant and updated views on quality and risk
- Investors can buy or sell units on the Cboe securities exchange like any other listed security or apply and redeem directly with the Responsible Entity

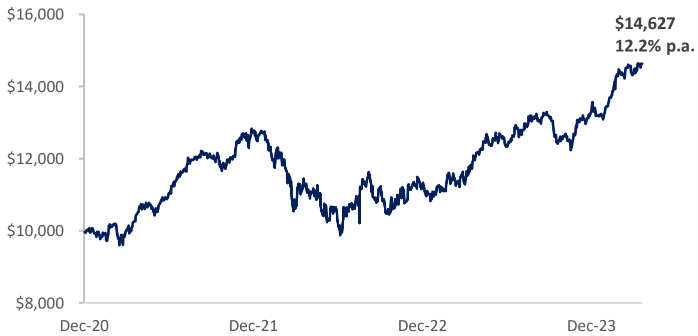
Fund Facts

Portfolio Manager	Elisa Di Marco	
Structure	Global Equity Fund, A$ Unhedged	
Objective	Achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified portfolio of high quality companies	
Investment Risks	All investments carry risk. While it is not possible to identify every risk relevant to your investment, we have provided details of the risks that may affect your investment in the relevant Product Disclosure Statement. You can view the PDS for the fund at www.magellangroup.com.au.	
Inception Date[1]	11 December 2020	
Management Fee[2]	0.51% per annum	
Buy/Sell Spread[3]	0.10%/0.10%	
Minimum Investment[3]	AUD$10,000	
Fund Size/NAV Price	AUD $27.5 million / $4.5424 per unit	
Distribution Frequency	Semi-annually	
Cboe Ticker	MCSG	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSG AU Equity) **Refinitiv (MCSG.CHA)** **IRESS (MCSG.CXA)**	MCSGAUIV MCSGAUDINAV=SOLA MCSGAUDINAV	MCSGAUIV Index MCSGAUiv.P MCSG-AUINAV.NGIF

Visit www.magellangroup.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms

[1]The inception date represents the first date the fund was offered to retail investors;
[2] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST;
[3]Only applicable to investors who apply for units directly with the Responsible Entity.

Performance Chart growth of AUD $10,000*



Past performance is not a reliable indicator of future performance.

Performance*

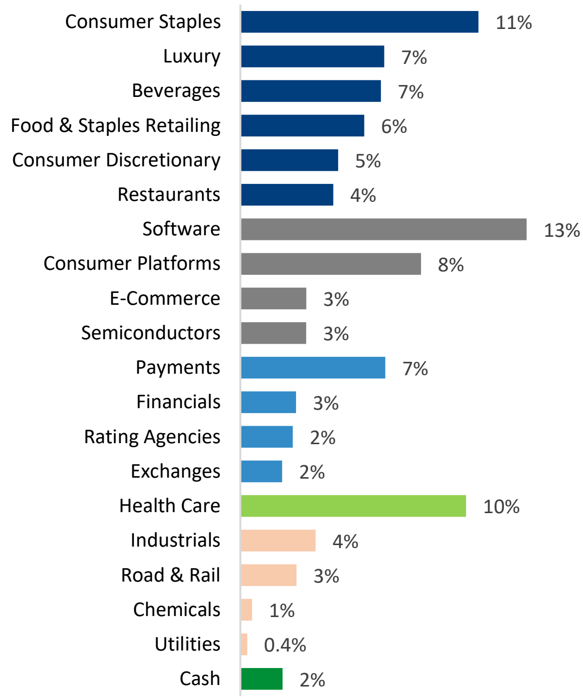
	Fund (%)	Index (%)**	Excess (%)
1 Month	0.4	3.0	-2.6
3 Months	10.6	13.9	-3.3
6 Months	17.8	20.0	-2.2
1 Year	21.0	28.4	-7.4
3 Years (p.a.)	12.5	14.4	-1.9
Since Inception (p.a.)	12.2	15.0	-2.8

Past performance is not a reliable indicator of future performance.

Top 10 Positions

Company	Sector#	%
Alphabet Inc	Consumer Platforms	3.12
Amazon.com Inc	E-Commerce	3.08
Home Depot Inc	Food & Staples Retailing	3.08
ASML Holding NV	Semiconductors	3.07
Eli Lilly & Co	Health Care	3.07
Mastercard Inc	Payments	3.01
Microsoft Corporation	Software	3.01
Apple Inc	Consumer Platforms	2.96
Visa Inc	Payments	2.94
Hermes International	Luxury	2.93
	TOTAL:	30.28

Portfolio Snapshot#



* 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 11 December 2020. Returns denoted in AUD.
** Benchmark is the MSCI World NTR Index (AUD). All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in www.magellangroup.com.au/funds/benchmark-information.
# Sectors are internally defined. Exposures may not add to 100% due to rounding.

Market Commentary

Global equity markets posted strong returns in the March quarter, with the MSCI World Index rising 8.9% in USD and 13.9% in AUD. The sectors with the largest gains were Communication Services (up 13.7%), followed by Information Technology (12.8%) and Financials (12.0%), while the laggards were Utilities (down 2.2%), Consumer Staples (-4.8%) and Materials (-5.6%). The Nikkei 225 rose 20.6% in the quarter, outpacing the S&P 500 (10.2%), STOXX Europe 600 (7.0%), S&P/ASX 200 Accumulation Index (5.3%) and the MSCI Emerging Markets Index (1.9%). China's CSI 300 rose 3.1%.

The main drivers of these strong returns were improved earnings outlooks and sentiment. US economic data released during the quarter were stronger than expected, though not strong enough to suggest that a broad-based reacceleration in inflation was likely. Earnings results for the December quarter released in the March quarter led to sizeable earnings upgrades. Overall, this dataflow saw investors reduce the number of quarter percentage point (0.25%) Federal Reserve rate cuts they expect by the end of 2024 from six to three, while also pushing up the US 10-year Treasury yield by 30bp to 4.2%.

In Europe, several countries including Germany, Finland, the UK and Ireland entered a technical recession by posting two consecutive quarters of negative GDP growth for the second half of 2023. The 10-year German government bond yield increased 30bp to 2.3%, a move broadly in line with movements in global sovereign bond yields.

In Japan, the Bank of Japan ended its negative interest policy that had been in place since 2016. Japanese equity returns have benefited from corporate governance changes that promote returns and a return of inflation, which boosts nominal growth rates. The yield on Japanese 10-year government bonds rose 10bp to end the quarter at 0.7%. While the Chinese authorities are also attempting to improve corporate profitability, we believe that relatively low trading multiples in China are justified by permanent political and governance risks and the more difficult economic backdrop in the medium term.

Fund Commentary

The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in ASML, Hermès and Amazon. ASML reported strong growth in quarterly bookings, which were up 45% yoy (against a strong comparative period) and up 250% qoq (against a weak prior quarter). Investors have been hoping for a bookings inflection during FY24 so this was sooner and more resounding than expected, driving greater conviction of a cycle recovery supported by strength in memory demand. Hermès posted a strong quarterly result, with group organic sales growth of 18% yoy supported by double-digit growth across all geographies and categories and strong demand resilience amongst its ultra-high net worth customer base. Brand desirability and pricing power remain incredibly high and we expect Hermès to continue its track record of luxury sector outperformance. Amazon delivered a strong quarterly result that beat guidance and saw brokers upgrade their earnings estimates. AWS revenue growth accelerated, as the impact of cost optimisation continued to diminish and the pace of new deals/ migration accelerated. Consolidated EBIT more than tripled year-on-year to $13.2bn, beating consensus expectations by +27%, with upside driven by the North America Retail business where profitability improved due to sales leverage, positive business mix, lower freight/ transportation costs, and productivity gains from the regionalisation/ optimisation of its fulfilment network.

The biggest detractors in the quarter were names in the consumer discretionary space including Apple, Nike and software giant, Adobe. Apple was affected by news of a slowing smartphone market in China and the release of an antitrust case brought by the SEC for monopolising the smartphone market. We view the risks to the smartphone market in China to be short-term and they are captured in our forecasts. With regards to the anti-trust case, we view that the most probable outcome of the case will be a fine, immaterial to Apple's valuation. As such, we remain optimistic on the future outlook of the business. Nike provided a much-weaker-than-expected near-term revenue outlook in its recent result, reflecting both subdued macro conditions and company-specific "franchise management" actions. The actions seek to protect brand equity in a promotional environment and as part of a strategic repositioning of the company's go-to-market strategy and product innovation pipeline. Adobe underperformed as concerns about disruption from AI and Creative Cloud maturity resurfaced after the release of OpenAI's Sora video generational model and a modest miss on Creative Cloud net new annualised recurring revenue. We view concerns as overblown.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.

Outlook

Similar to last quarter, inflation continues to slow steadily. Given this, we view that interest rates have likely peaked; however, the pace of inflation deceleration is unlikely to see rates lower quickly. We continue to view a soft landing as our base case, given the resilience of the labour market and green shoots in manufacturing PMI data. We do note that there are pockets of weakness in the consumer, especially at the lower-income end, which we continue to monitor for any signs of weakness.

We anticipate that portfolio returns are more likely to be driven by earnings growth. Given the portfolio's focus on quality, we view our companies as being well placed to deliver solid earnings growth in the years ahead. Our definition of quality is valuable in a market focused on earnings growth – for several reasons: 1) quality companies tend to reinvest through the cycle, often leading to stronger earnings growth on a relative basis when the cycle turns; and 2) when defining quality, we look for favourable trends in business quality alongside structural tailwinds, which typically lead to more durable cash flows.

Stock Story – SAP

(Adrian Lu – Investment Analyst)

Enterprise software is home to some of the best business models in the world, and nowhere is this more evident than in Enterprise Resource Planning (ERP). ERP is the central nervous system of the enterprise, powering mission-critical processes across an organisation in a seamless suite of integrated software. Companies simply cannot run without it.

SAP is the market leader in ERP and related application software, formed through decades of expertise since its founding in 1972. This leadership is evident in the fact that 99 of the 100 largest companies in the world run SAP, and 87% of total global commerce volume ($46 trillion) is generated by SAP customers. Its solutions span many functional areas including finance, procurement, human resources, and warehouse and transportation management.

The critical role ERP plays for enterprise customers to function and differentiate their business processes confers strong pricing power and customer retention rates for SAP. Its comprehensive product portfolio provides ample opportunity to expand its footprint both within its customer base and with new customers, and this opportunity extends as these customers expand and encounter greater complexity. SAP solves complexity.

SAP is now embarking on the largest business model shift in its history to support its customers as they digitally transform their businesses to the new cloud paradigm. Having undergone a period of transition with new management, restructuring, and divestment of non-core businesses, the company is now at an early phase of renewed growth momentum. The majority of SAP's customer installed base have yet to undergo or complete their cloud transitions, and this will provide significant runway for sales growth and margin expansion in the years to come.

This momentum is evident in SAP's cloud revenue, which has tripled over the last five years and now represents half of its €27 billion in total software revenue, within which its most strategic cloud businesses grew over 50% in 2023 alone. The total value of contracted deals, a forward-looking indicator, continues to grow as does the size of individual deals as projects develop. The predictability of SAP's revenue stream will keep improving as cloud becomes a greater share of the business and the company's historical reliance on traditional licence sales diminishes.

ERP and related application software have been around for decades, but the innovation pipeline is arguably more exciting than it has ever been. Cross-border regulatory complexity is rising. Supply chains are becoming more sophisticated. Emissions-reporting frameworks require new ways to track and manage climate-related disclosures. The use of Artificial intelligence (AI) has accelerated.

Rapid advancements in AI offer the potential to solve new problems or operate more effectively, and companies are increasingly looking towards leveraging it. The rich proprietary data flowing through ERP systems make SAP particularly well suited to deliver these solutions. Integrating AI can help companies extend workflow automation, enhance predictive analytics, and improve decision-making.

These represent multi-year opportunities for SAP to capture additional value from innovation, all while driving further operating efficiencies. We believe the company's journey is only getting started.

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