

Magellan Global Fund (Closed Class)



TICKER: MGF | ARSN: 126 366 961

AS AT 31 MARCH 2024

PORTFOLIO MANAGERS

NIKKI THOMAS, CFA AND ARVID STREIMANN, CFA

INVESTMENT PHILOSOPHY

To invest in outstanding companies at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk.

OBJECTIVES

To achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.

Aims to deliver 9% p.a. net of fees over the economic cycle.

PORTFOLIO CONSTRUCTION

A relatively concentrated portfolio of 20-40 high quality securities constructed with strict risk discipline and macroeconomic insight seeking to achieve strong risk-adjusted, not benchmark-relative returns.

Cash and cash equivalents exposure between 0 - 20%.

MAGELLAN GLOBAL FUND (CLOSED CLASS): KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	NAV PER UNIT	MANAGEMENT AND PERFORMANCE FEES ¹	INCEPTION DATE
MGF	AUD \$3,414.4 million	\$2.2606 per unit	1.35% p.a. and performance fee of 10% of dual hurdle excess return [^]	30 November 2020

[^] 10.0% of the excess return of the Closed Class units of the fund above the higher of the Index Relative Hurdle (MSCI World NTR Index (AUD)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.

CLOSING MARKET PRICE	VALUE OF UNITS BOUGHT BACK SINCE INCEPTION ²	% UNITS BOUGHT BACK SINCE INCEPTION	DISTRIBUTION YIELD ³
\$2.160 per unit	\$531.4 million	26.1%	3.9%

PERFORMANCE⁴

	1 MONTH (%)	3 MONTHS (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
MGF	1.4	14.8	23.0	28.6	11.8	10.4
MSCI World NTR Index (AUD)*	3.0	13.9	20.0	28.4	14.4	14.7
Excess	-1.6	0.9	3.0	0.2	-2.6	-4.3

CALENDAR YEAR RETURNS

	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (% part year)
MGF	14.8	23.0	-14.8	19.8	-3.6
MSCI World NTR Index (AUD)*	13.9	23.0	-12.2	29.3	-0.8
Excess	0.9	0.0	-2.6	-9.5	-2.8

Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD \$10,000⁴



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¹ Transaction costs may also apply. All fees are inclusive of the net effect of GST.

² The Fund has been exercising its ability to buy back units on market since 11 January 2021.

³ Distribution Yield calculated by applying the aggregate distribution per unit paid over 12 months to 31 December 2023 against the closing market price as at 31 December 2023.

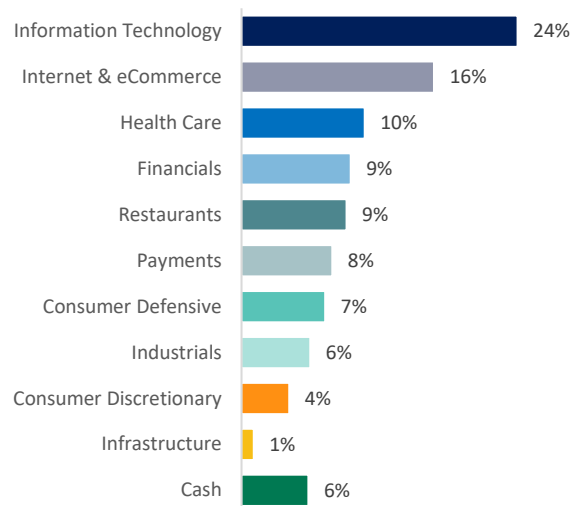
⁴ Calculations are based on NAV prices with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.

*MSCI World Net Total Return 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/

TOP 10 HOLDINGS

STOCK	SECTOR ⁵	%
Microsoft Corporation	Information Technology	7.3
Amazon.com Inc	Internet & eCommerce	7.1
SAP SE	Information Technology	5.2
Intercontinental Exchange Inc	Financials	4.9
Chipotle Mexican Grill Inc	Restaurants	4.3
UnitedHealth Group Inc	Health Care	4.2
ASML Holding NV	Information Technology	4.1
Mastercard Inc	Payments	4.0
Intuit Inc	Information Technology	3.9
Visa Inc	Payments	3.7
TOTAL:		48.7

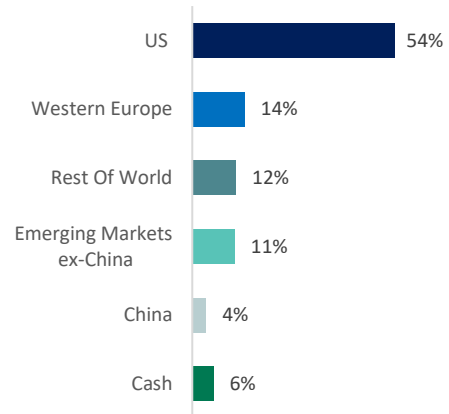
SECTOR EXPOSURE BY SOURCE OF REVENUE⁵



TOP CONTRIBUTORS/DETRACTORS 1 YEAR⁶

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Amazon.com Inc	3.9
Microsoft Corporation	3.1
Chipotle Mexican Grill Inc	2.6
TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
AIA Group Ltd	-0.8
Diageo Plc	-0.5
US Bancorp	-0.3

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE⁵



⁵ 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. Exposures may not sum to 100% due to rounding.

⁶ Shows how much the stock has contributed to the fund's gross return for the period in AUD. Excludes non-disclosed positions established in the latest quarter.

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 rate 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 achieved double-digit growth during the March quarter. The largest contributors were the holdings in Amazon, SAP, ASML, Chipotle and Microsoft, which all rose strongly. Almost all of these have benefited from compelling outlooks associated with reaccelerating growth in Cloud and semiconductors, with AI adding fuel to the long-term opportunity apparent for each. Chipotle Mexican Grill's share price also benefited from a planned stock split (which really does not change fundamental value) and strong expectations as it benefits from falling inflation in its costs.

The largest detractor in the quarter (-46bp) was AIA (1299 HK), which fell 22.8% over the quarter, most of which was in March after its 2023 result release. While these results were solid and it continues to execute well and manage a conservative balance sheet, the outlook failed to meet expectations and added no additional buyback to its existing plan. This saw the stock sell off aggressively. It remains, in our view, fundamentally cheap, but sentiment is weak for it and many Hong Kong/China exposed names. The other main detractors were Apple and UnitedHealth Group, which have both seen some news on regulators reviewing their market power. We believe both are attractively priced with good long-term prospects.

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

Outlook

Reviewing our outlook one quarter ago and thinking about what has changed is always a worthwhile exercise. The first quarter of 2024 proved a continuation of the final months of 2023, with broad-based strength across the globe and broadening of strength across company size and sectors. It remains a cyclically based market in the US, especially as strong economic growth has offset the expectations being repriced for fewer rate cuts (from about six late last year to two to three today). Economic weakness, and related slowing in inflation, have been more evident in European markets, the UK and Australia. Equity market investors have perhaps even reverted to expecting less than the Fed dot plot in rate cuts and so the incoming data on inflation will be important from here. Our portfolio positioning is still reflecting our expectation for a bottoming of the recession risks around the world. So far, this has meant, year to date, we captured the positive move in markets even with our risk protection process keeping us at 'less than market' risk settings.

1Q24 earnings results begin in the coming weeks and we expect many good results from our companies, though the question to be answered is whether share prices, most up strongly, have priced this. While, if one thinks about just the very short term, the answer is not clear to us, over the longer term, we believe the upside for the portfolio is clear.

We continue to view 10-year Treasuries as range-bound around 4% in the US and with downside prospects, alongside policy (cash) rates, in most major developed economies as inflation slows. Rate cuts later this year look virtually assured, especially in Europe, and so we still anticipate this may be supportive of equities' returns for 2024. Elsewhere Japan has finally moved interest rates above zero and its local market

has benefited from Yen weakness and better corporate governance/ shareholder friendliness. China remains intent on a 5% GDP growth goal and this seems achievable through better industrial production and exports, while its housing market is very weak and so is the consumer. The gradual shift over the past decade to more value-added production capabilities has been successful inside China, and we can see a wave of very cost-competitive industries with excess capacity – renewables, batteries, electric and other cars, automation, robotics – has emerged. There is potential for this to be disruptive in a number of global industries and add a deflationary pulse.

With disruptive innovation as the single most powerful force in capitalism, we see the major technological advancements in Artificial Intelligence and Generative AI as critically important for investors. While it remains very early in the shift, like the internet, the PC and mobile phone adoption eras, AI will, we expect, change organisations' work and workflow, as well as our personal lives, dramatically over the next decade. Microsoft finds itself again at the forefront of these changes, as it did when we adopted PCs. For now, the enabling and expansion of Gen AI requires deep pockets and large data sets and we believe the portfolio is well exposed to this future opportunity. Strong prospects for corporate earnings and cash flows, as we seem likely to be entering a period of major new innovation and improved productivity, mean an exciting backdrop for long-term investors.

Strong earnings mitigate rate volatility risk over a longer time horizon and so the portfolio is tilted towards those companies we believe can keep delivering better-than-expected results through time and are yielding high cash flows from their operations even today. Innovation alongside execution excellence is at the heart of many of the companies we own as we believe these position them to succeed and outgrow their respective industries. The quality threshold for inclusion in the Global Strategy remains high.

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.

IMPORTANT INFORMATION

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