

# Magellan Global Fund (Hedged)

ARSN: 164 285 661

## Fund Facts

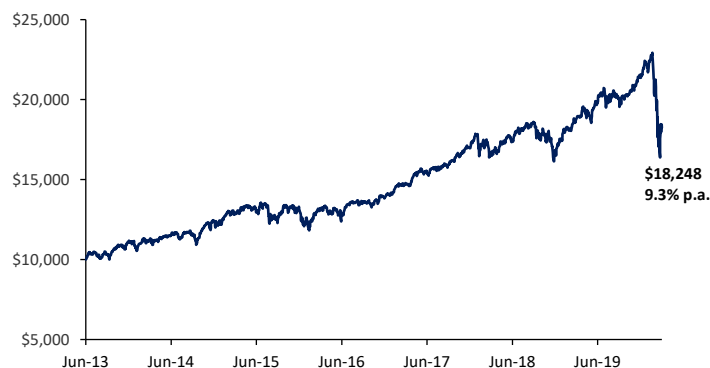
Portfolio Manager	Hamish Douglass
Structure	Global Equity Fund, \$AUD Hedged
Inception Date	1 July 2013
Management Fee <sup>1</sup>	1.35% per annum
Buy/Sell Spread <sup>1</sup>	0.07%/0.07%
Fund Size	AUD \$785.7 million
Distribution Frequency	Annually at 30 June
Performance Fee <sup>1</sup>	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (hedged to 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.

<sup>1</sup>All fees are inclusive of the net effect of GST

## Fund Features

- An active, long only global equity fund
- Aims to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian dollars
- Relatively concentrated portfolio of typically 20 to 40 high-quality securities
- Benchmark unaware
- Maximum cash position of 20%
- AUD \$10,000 minimum investment amount.

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



## Fund Performance\*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-9.9	-13.6	3.7
3 Months	-14.6	-21.1	6.5
6 Months	-9.1	-15.3	6.2
1 Year	-2.5	-11.2	8.7
3 Years (% p.a.)	7.4	1.6	5.8
5 Years (% p.a.)	7.2	3.8	3.4
Since Inception (% p.a.)	9.3	7.8	1.5

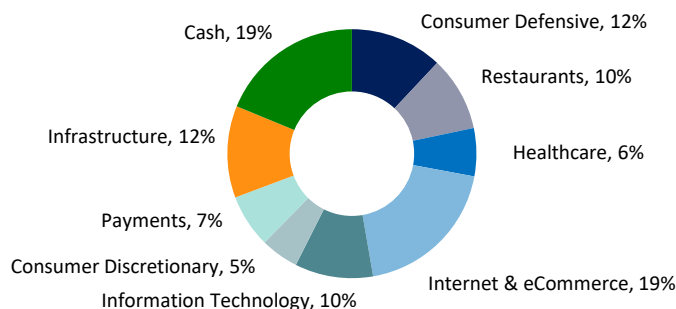
## Capital Preservation Measures<sup>^</sup>

Adverse Markets	3 Years	5 Years	Since Inception
No of observations	9	16	16
Outperformance consistency	89%	94%	94%
Down Market Capture	0.6	0.6	0.6

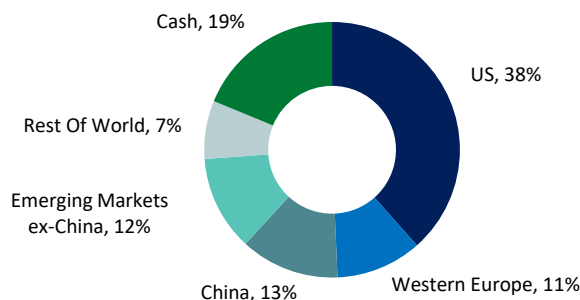
## Top 10 Holdings

	Sector <sup>#</sup>	%
Microsoft Corp	Information Technology	7.2
Alibaba Group Holding Ltd	Internet & eCommerce	6.0
Alphabet Inc	Internet & eCommerce	5.6
Facebook Inc-A	Internet & eCommerce	5.3
Starbucks Corp	Restaurants	4.8
Novartis AG	Health Care	4.2
Visa Inc	Payments	4.1
Reckitt Benckiser	Consumer Defensive	3.9
Nestle SA	Consumer Defensive	3.7
Xcel Energy Inc	Integrated Power	3.6
TOTAL:		48.4

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



## Geographical Exposure by Source of Revenue<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. Returns denoted in AUD.

\*\* MSCI World Net Total Return Index (hedged to AUD)

<sup>^</sup> Risk measures are calculated after fees. An adverse market is defined as a negative quarter, rolled monthly, for the MSCI World Net Total Return Index (Hedged to AUD). Down market capture shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much.

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

## Market Commentary

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Global stocks in the three months ended March 31<sup>st</sup> staged their biggest quarterly decline in more than 10 years after the coronavirus that causes the illness called covid-19 escaped from China and battered global economic activity, corporate earnings and investor sentiment to such an extent the pandemic threatened to usher in a global recession. During the quarter, all 11 sectors dived in US-dollar terms. Energy (-45%) declined the most after Saudi Arabia and Russia commenced an oil price war while healthcare (-12%) fell least. The Morgan Stanley Capital International World Index fell 21% in US dollars – its biggest quarterly drop since the global financial crisis struck in the December quarter of 2008 – but lost only 9.3% in Australian currency due to this currency's depreciation.

US stocks fell as companies withdrew guidance as authorities enforced lockdowns, shut service industries and told people to 'self-isolate' as the virus took hold across the 50 states but with particular venom in New York. Emergency fiscal stimulus and radical monetary easing failed to arrest the economic emergency that some commentators said could lead to at least a 10% decline in GDP in the June quarter. Congress passed a package worth US\$2 trillion to help households and businesses cope. The Federal Reserve in two unscheduled steps in March cut the US cash rate by 150 basis points to near zero, promised unlimited bond buying to stabilise government and corporate credit markets and announced a US\$300 billion program to lend to US companies. Neither stopped a record 3.28 million people from claiming unemployment insurance in the week ended March 21, up 3.0 million from the week before and more than four times the previous record of 695,000 in October 1982. In political news, former vice president Joe Biden all but clinched the Democratic Party's nomination to contend the presidential election against Donald Trump in November by winning most of the primaries held in March after the party's establishment united to defeat the bid by self-described socialist Bernie Sanders. The S&P 500 Index plummeted 20%, after reaching a record high in February due to robust earnings reports.

European stocks sank as the coronavirus epidemic took hold, especially in Italy, Spain and France, German politics became unsettled and reports showed the eurozone economy was struggling even before the virus hit. Towns in northern Italy were quarantined in February after they formed the first area in Europe to experience a stream of infections from the novel coronavirus but such steps failed to spare Italy or stop the spread of the pandemic across Europe. German political uncertainty rose when Annegret Kramp-Karrenbauer, the leader of the Christian Democrats, said she would not run for chancellor in next year's election, which threw open the race to succeed Angela Merkel as chancellor. A report in February showed the eurozone economy expanded only 0.1% in the fourth quarter – Germany's economy showed no growth for the three months. Reports in March, when the virus had enforced lockdowns across Europe, showed consumer confidence at a five-year low and business activity plunging – the IHS Markit purchasing managers index for Germany, for example, fell from 50.7 points in February (any figure over 50 indicates expansion) to 37.2 in March. The Euro Stoxx 50 Index plummeted 26%.

In other markets, Japan's Nikkei 225 Index dropped 20% after a report showed the economy shrank at an annualised pace of 6.3% in the fourth quarter due to an increase in the consumption tax and covid-19 posed such a threat schools were closed and large gatherings and sports events were cancelled or curtailed. China's CSI 300 Index lost 10% as measures to contain the coronavirus kept businesses and ports closed and prevented workers from returning to their jobs and the official manufacturing purchasing managers index fell to a record low of 35.7 in February from 50 in January. The S&P/ASX 200 Accumulation Index slumped 21% as authorities froze much economic activity, sparking immediate job losses, and the virus jolt to the global economy mauled material prices. The MSCI Emerging Markets Index shed 24% in US dollars on the prospect of a global recession.

*Movements in benchmark indices are in local currency unless stated otherwise.*

## Fund Commentary

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The portfolio recorded a negative return for the quarter. The biggest detractors were the investments in Yum! Brands, Starbucks, HCA Healthcare and Facebook. Yum! Brands and Starbucks fell as their outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus – though the decline in Yum! Brands first started when the owner of KFC, Pizza Hut and Taco Bell restaurants reported a 2% decline in Pizza Hut's same-store sales for the fourth quarter. HCA Healthcare dropped after elective surgeries were deferred as hospitals built capacity to respond to the pandemic and investors weighed the impact of the unprecedented jump in US unemployment on HCA's revenue mix from different payers. Facebook fell after demand for advertising fell amid the health and economic emergency.

Two investments to rise in local currency were Microsoft and Tencent. Microsoft surged to a record high over the quarter after its cloud business helped the software giant beat earnings and revenue forecasts for the fourth quarter of 2019 and then held up relatively well after it was judged a stock that would benefit from the world's switch to online due to the pandemic. Tencent rose on an improving earnings outlook and as the virus forced Chinese to work from home and engage more with the company's suite of digital services.

## Stock story: Alibaba

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Top this for a company head's farewell to staff. A tearful Alibaba co-founder Jack Ma wore oversized purple-tinged glasses, a studded leather jacket with chains and a braided long-haired wig and sang Chinese pop songs accompanied by two other co-founders, a rock-star-decked Lucy Peng, and Joe Tsai, who opted for a 'Marilyn Monroe'-style dress and a blonde wig. And these were just some of the antics at a four-hour celebration in front of 60,000 employees in September last year in the eastern Chinese city of Hangzhou to mark Ma's achievements and the e-commerce giant's 20th birthday.<sup>1</sup>

The company that earned 377 billion yuan (US\$56 billion) in revenue in fiscal 2019 had much to celebrate. Alibaba, with more than 60% market share, is the leading e-commerce marketplace operator in China, which is one of the world's fastest-growing online retail markets thanks to rising incomes, the proliferation of smartphones and the fact that traditional western-style retailing never fully developed in the country. Alibaba's domestic consumer-to-consumer platform Taobao (launched in 2003) and its business-to-customer platform Tmall (launched in 2008) that houses the world's most valuable brands have 820 million monthly users today. The platforms generate transactions worth almost US\$950 billion a year, an amount twice that of Amazon's. Alibaba is behind the world's largest shopping event; the company's annual 'Singles Day', which on November 11 last year notched a record US\$38.4 billion in sales across Alibaba's main e-commerce sites.

And e-commerce is just one of Alibaba's businesses. The company has used the profits from its lucrative e-commerce arm to expand into other large, fast-growing and often-complementary industries. Two of its most promising businesses include Alibaba Cloud Intelligence (founded in 2009), which is one of the world's largest cloud-computing businesses, and Ant Financial (established in 2004, 33% owned by Alibaba), which is China's largest payments and digital financial services platform. In addition, Alibaba operates China's leading digital advertising platform, emerging international e-commerce platforms (AliExpress and Lazada), one of China's leading online-food delivery and local-services platforms (Ele.me), a logistics business that supports the delivery of millions of items daily (Cainiao), a grocery business pioneering online-offline integration (Hema) and a leading digital media and entertainment business (Youku). Together, these businesses are supporting enterprise digitalisation in China and, in aggregate, have helped Alibaba notch revenue growth of 48% p.a. over the past five years.

Alibaba is well placed to record impressive earnings growth in coming years. The company is positioned to benefit from

growing consumer spending in China and rising online penetration in rural cities. Network effects, user data insights, economies of scale and an ability to outspend competitors are sealing Alibaba's market supremacy across many e-commerce segments. The synergies across Alibaba's many units attract and retain people to its sites, which presents opportunities to cross-promote, hone algorithms and monetise data through targeted ads. The cloud arm, which is twice the size of its next Chinese rival, is well positioned to add to its 1.4 million paying customers that include more than half of the A-share listed companies in China and 80% of Chinese technology companies. All up, Alibaba's wide reach presents as a unique opportunity to benefit from China's digital transformation and shift to a consumption economy.

Alibaba comes with risks, to be clear. One that is common to Chinese stocks is that, to skirt government restrictions on foreign ownership of 'sensitive' businesses, foreign investors can gain exposure to Alibaba only by investing in 'variable interest entity' structures where they don't own shares in the operating companies directly. Another risk is interference from the Chinese government and its omnipotent regulatory powers. Although these market nuances create uncertainty for foreign shareholders, the probability of them transpiring into material shareholder losses for high-profile companies such as Alibaba is considered to be low, particularly given the importance of foreign capital to the Chinese economy. Another risk is that Alibaba competes for the attention and business of Chinese consumers in a dynamic market against the formidable Tencent, JD.com and Meituan-Dianping. Notwithstanding the intense competition, Alibaba is likely to deliver the earnings growth in coming years that justify its risks.

### Four reporting segments

In 1999, Ma was one of 18 people who gathered in his small, shared apartment in Hangzhou to form Alibaba. The company's first initiatives were to create the English-language global wholesale marketplace Alibaba.com and a domestic-based marketplace, now known as 1688.com, for domestic wholesale trade. By the end of 2001, Alibaba.com had more than one million registered users and within another 18 months the company was profitable.

Skip to 19 September 2014 and Alibaba, after 15 years of excelling in e-commerce and branching beyond by organic investment, acquisition, forming alliances and minority investments, emerged as one of the world's most valuable technology companies, raising a record US\$25 billion for its New York Stock Exchange debut.

Alibaba's secondary listing on the Hong Kong Stock Exchange in 2019 was just as successful for the company now under CEO Daniel Zhang that reports its earnings across four key segments. The 'core commerce' division earned 86% of group revenue in fiscal 2019 from commission fees, memberships and advertising on Alibaba's e-commerce platforms. Core commerce also includes revenue generated from the sale of goods (i.e. first-party sales), primarily through Alibaba's New Retail initiative, Hema, as well as revenue generated from the provision of logistics services (through Cainiao) and local services (through Ele.me and Koubei).

<sup>1</sup> See Reuters. 'Tearful Ma bids Alibaba farewell with rock star show.' 9 September 2019. [reuters.com/article/us-alibaba-jackma-idUSKCN1VU0VY](https://www.reuters.com/article/us-alibaba-jackma-idUSKCN1VU0VY)

The next most important division is cloud computing, which earned 7% of Alibaba's revenue by providing cloud solutions. The unprofitable 'digital media and entertainment' segment attracted 6% revenue from membership fees and advertising. This revenue was mainly derived from Alibaba's online video platform, Youku, and online browser, UCWeb, as well as through diverse content platforms that provide film, online ticketing, music, news, literature and gaming.

The other division is the loss-making 'innovation initiatives and others' segment, which earned 1% of revenue. Within this division are found the company's operating system, navigation technology, AI-powered voice assistants and smart speakers, and enterprise-communication software, where revenue is typically generated through software or annual fees.

With so many dominant positions across so many industries likely to ensure that these four segments generate strong growth over time, the party marking Alibaba's next birthday of note could be the most bizarre yet.

*Sources include company filings and website, Bloomberg and Hoover's, a Dun & Bradstreet Company.*