



Nikki Thomas, CFA
Portfolio Manager



Arvid Streimann, CFA
Head of Macro and
Portfolio Manager

MAGELLAN GLOBAL FUNDS

The Magellan Global Funds invest in the world's best 20 to 40 global stocks. The strategy aims to deliver 9% p.a. over the economic cycle while reducing the risk of permanent capital loss.

PERFORMANCE

Global stocks fell over the 12 months to June after Russia's invasion of Ukraine clouded the global economic outlook and boosted energy and food prices, central banks tightened monetary policies to tame inflation at decade highs, higher interest rates prompted talk the US economy was headed for recession, and China added to worries about shortages and inflation by locking down cities to enforce a policy of zero covid-19.

- The **Magellan Global Fund (Open Class) (ASX:MGOC)** recorded a return after fees of minus 11.8%¹ for the 12 months.
- **Magellan Global Fund (Closed Class) (ASX:MGF)** recorded a return after fees of minus 10.6%¹ for the 12 months.
- The **Magellan Global Fund (Hedged)** recorded a return after fees of minus 18.2%² for the 12 months.
- The **Magellan Global Equities Fund (Currency Hedged) (Managed Fund) (ASX:MHG)** recorded a return after fees of minus 18.1%² for the 12 months.

Within the underlying global portfolio, the stocks that detracted the most over the 12 months were the investments in China's Alibaba Group (-2.7 percentage points of the total portfolio return in Australian dollar (AUD) terms), Netflix (-2.3 ppts) and Meta Platforms (-1.9 ppts). Alibaba dropped after the Chinese tech company announced sales figures that disappointed and Chinese regulators cracked down on local technology companies. Netflix fell after the streaming service said it expected subscriber growth to slow and profit margins to narrow. Meta tumbled after the owner of Facebook offered weak revenue forecasts due to Apple privacy restrictions inhibiting the reach and effectiveness of online ads, its Facebook site suffered its first drop in regular users due to the popularity among the young of TikTok, and the company faced a public-relations blow and possible legal difficulties after a former employee exposed issues at the social-media company and that it was losing younger audiences.

The stocks that contributed the most over the 12 months were the investments in PepsiCo (+0.8 ppts), McDonald's (+0.5 ppts) and Procter & Gamble (+0.5 ppts). PepsiCo gained after the drinks and snacks company raised its forecast for full-year earnings and announced profit and revenue numbers that beat expectations. McDonald's too benefited from the ability of its franchisees to raise prices to absorb higher input costs. Procter & Gamble was another to enjoy the boost quality consumer staples received for their ability to protect margins in times of high inflation.

OUTLOOK

In the past 12 months, inflation pressures have proven to be more persistent than expected, leading central banks to increase the size and pace of their monetary tightenings. While this is likely to result in a slow peak in inflation, the trade off to the growth backdrop remains highly uncertain. We see three risks to this outlook.

The first risk is that consumer expectations of inflation become unhinged, triggering a wage-price cycle. This would prompt central banks to conduct more rate increases, which would put more downward pressure on economic growth. The second risk is an unexpected supply- or demand-side shock that worsens the outlooks for growth and inflation. There might be, for instance, a disruption to energy supplies or a loosening or tightening in fiscal-policy settings. The third risk is that economic growth slows more quickly or more significantly than expected yet central banks keep raising rates for too long or take them too high.

We are cautious about the outlook for equity market returns as we navigate the uncertainties and risks surrounding inflation and on June 30 held a cash balance of 9%. As economies slow, we expect overall earnings forecasts to be reduced and many companies to revise lower their outlook statements. Until the peak in interest rates and the likely path of growth become clearer, uncertainty will likely prolong volatility in stock markets.

PORTFOLIO POSITIONING³

Top-10 holdings at 30 June 2022

Security	Weight (%)
Microsoft Corporation	7.8
Visa Inc	6.0
Alphabet Inc	5.6
Mastercard Inc	5.1
McDonald's Corporation	4.5
Yum! Brands Inc	4.3
Novartis AG	4.3
Reckitt Benckiser Group	4.0
Intercontinental Exchange Inc	3.9
Nestlé SA	3.6
Total	49.1

We believe our concentrated, high-conviction portfolio of 30 high-quality companies is positioned to deliver on our objective to create wealth for clients over the long term.

It is our conviction that high-quality companies will provide investors with the most reliable returns over the medium to long term. To be sure, returns from quality companies may lag over some short time frames, especially if investors are infatuated with mesmerising profitability forecasts that have a low probability of occurring in the medium to long term. History, however, has repeatedly shown that these periods are aberrations that are punctured when investor sentiment inevitably normalises. Indeed, this is what has happened over the past 12 months; investor risk appetite eventually deteriorated.

One of the strongest signs of a quality company – in fact, almost a prerequisite – is pricing power. With the surge in inflation over the past 12 months or so, companies with pricing power have proven their value to investors because they have swiftly passed on higher costs to customers and thereby protected their profit margins. This advantage is compounded when companies sell something that their customers are reluctant, or unable, to do without when prices rise. Over the past 12 months, companies with these characteristics have performed comparatively well owing to their 'defensive' nature. Our investments with these characteristics include:

- Consumer staples such as the UK-listed Reckitt Benckiser, Nestlé, PepsiCo and Procter & Gamble.
- Restaurant companies such as McDonald's, Yum! Brands (owner of KFC, Pizza Hut and Taco Bell) and Chipotle Mexican Grill that are enjoying an added boost to revenue and profit growth from new stores.
- Leading alcoholic spirits, luxury and beauty companies Diageo, L'Oréal and LVMH that have consistently displayed pricing power thanks to superb management of their large portfolio of prized brands and their low exposure to rising commodity costs.
- US utilities Eversource Energy, WEC Energy and Xcel Energy alongside telecommunications infrastructure provider Crown Castle International of the US that offer predictable cash flows thanks to regulation and strong growth in mobile data consumption respectively.

- Novartis, one of the world's largest and most diversified drugmakers. The medicine sales of the Switzerland-based group are relatively immune from the economic cycle

In the medium to long term, quality companies that are exposed to powerful and lasting thematic are rare and valuable. The portfolio's investment in such quality stocks includes:

- Leading western 'hyperscale' cloud providers that are part of Microsoft, Alphabet and Amazon. The shift to the public cloud is a long-duration thematic that we expect to grow about 20% p.a. to 2030. These companies are well placed because of their technological leadership and economies of scale.
- Enterprise software companies (Microsoft and SAP) that boost company productivity. Both are well positioned even as economic growth slows as companies look to operate more efficiently.
- Payments companies Visa and Mastercard that are leveraged to the cash-to-cashless transition that was turbocharged during the pandemic. Moreover, they benefit from faster inflation (by clipping the ticket on the value of personal consumption expenditures) and the reopening of international borders, which boosts their revenue from high-margin cross-border transactions.
- Companies leveraged to digital advertising (Alphabet, owner of Google, and Meta Platforms, owner of Facebook, Instagram and WhatsApp) that have privileged positions in the industry and offer customers compelling returns on their advertising spending. Moreover, their scalable business models mean they enjoy high profit margins.
- Companies benefiting as economies reopen such as those exposed to international travel (European-listed Amadeus IT, LVMH and Safran) and people socialising outside of home (Diageo, the world's largest distiller).
- Companies in industries where strong demand looks set to continue into the medium term. ASML is an essential part of the global semiconductor chip market that is forecast to grow by 7% p.a. and become a US\$1 trillion industry by 2030. The Netherlands-based company has a near monopoly in manufacturing advanced lithography machines that build the world's most advanced and miniaturised chips. Home-improvement retailer Lowe's is benefiting from the thriving US residential property market, where household formation rates are outstripping homebuilding. HCA Healthcare is a leading US hospital operator with an exceptional record of operational excellence that is benefiting from the need for healthcare and medical procedures in an ageing US society.
- A company that provides essential financial markets infrastructure, Intercontinental Exchange, which operates some of the largest futures and equities marketplaces and has a leading position in the sprawling mortgage-technology market.



Nikki Thomas



Arvid Streimann

Unhedged Performance as at 30 June 2022¹

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Magellan Global Fund (Open Class) (Managed Fund) (ASX: MGOC)	-11.8	2.1	8.4	8.1	13.3	10.2
9% p.a. objective excess	-20.8	-6.9	-0.6	-0.9	4.3	1.2
Magellan Global Fund (Closed Class) (ASX: MGF)	-10.6	-	-	-	-	-2.5
9% p.a. objective excess	-19.6	-	-	-	-	-11.5

Capital Preservation Measures⁴

Adverse Markets	Last 36 months	Last 60 months	Since inception 178 months
No. of observations	9	16	58
Outperformance consistency	56%	63%	72%
Down Market Capture Ratio	0.8	0.7	0.5

Hedged Performance as at 30 June 2022²

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Magellan Global Fund (Hedged)	-18.2	0.7	5.6	6.6	-	8.1
9% p.a. objective excess	-27.2	-8.3	-3.4	-2.4	-	-0.9
Magellan Global Equities Fund (Currency Hedged) (Managed Fund) (ASX: MHG)	-18.1	0.9	5.8	-	-	6.2
9% p.a. objective excess	-27.1	-8.1	-3.2	-	-	-2.8

Capital Preservation Measures⁵

Adverse Markets	Last 36 months	Last 60 months	Since inception 106 months
No. of observations	12	19	23
Outperformance consistency	50%	63%	70%
Down Market Capture Ratio	0.9	0.8	0.8

- Returns denoted in AUD. Open Class fund 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). Closed Class calculations are based on net asset values with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Open Class inception date is 1 July 2007 (inclusive). Closed Class inception date is 30 November 2020 (inclusive).
- Returns denoted in AUD. Unlisted fund 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). Active ETF calculations are based on net asset values with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Magellan Global Fund (Hedged) inception date is 1 July 2013 (inclusive), Magellan Global Equities Fund (Currency Hedged) inception date is 4 August 2015 (inclusive).
- Based on Magellan Global Fund, weights may not sum to total due to rounding.
- Based on Magellan Global Fund (Open Class). Capital preservation measures are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). An Adverse Market is defined as a negative 3-month return for the MSCI World NTR Index (AUD), rolled monthly. The Down Market Capture Ratio shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much. Fund Inception date is 1 July 2007 (inclusive).
- Based on Magellan Global Fund (Hedged). Capital preservation measures are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). An Adverse Market is defined as a negative 3-month return for the MSCI World NTR Index (AUD Hedged), rolled monthly. The Down Market Capture Ratio shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much. Fund Inception date is 1 July 2013.

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