Magellan Global Fund (Open Class) (Managed Fund)

TICKER: MGOC | APIR: MGE0001AU | ARSN: 126 366 961

MAGELLAN ASSET MANAGEMENT

AS AT 30 SEPTEMBER 2023

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%.

INVESTMENT RISKS

All investments carry risk. While it is not possible to identify every risk relevant to an investment in the fund, we have provided details of risks in the Product Disclosure Statement. You can view the PDS for the fund on Magellan's website www.magellangroup.com.au.

MAGELLAN GLOBAL FUND (OPEN CLASS) (MANAGED FUND): KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	BUY/SELL SPREAD[1]	MANAGEMENT AND PERFORMANCE FEES[2]	INCEPTION DATE
MGOC	AUD $6,167.7 million	0.07% / 0.07%	1.35% p.a. and performance fee of 10% of dual hurdle excess return^	1 July 2007

^ 10.0% of the excess return of the Open 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.

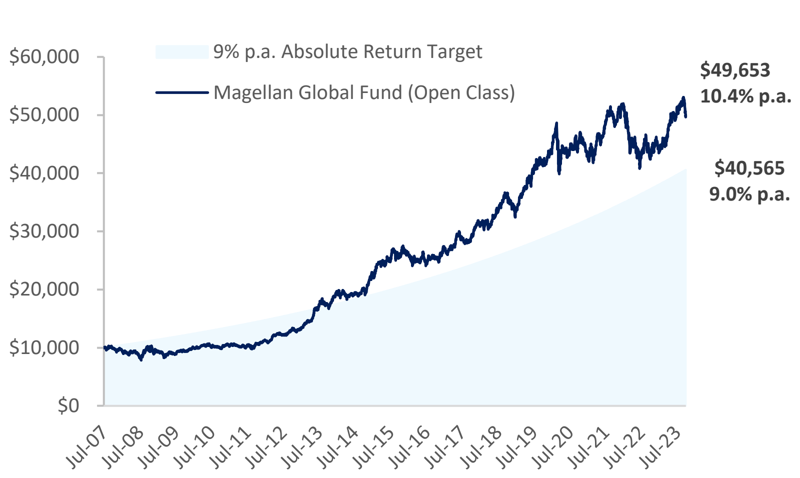
PERFORMANCE[3]

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	7 YEARS (% p.a.)	10 YEARS (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY[+]
MGOC	-5.5	-3.5	17.1	3.2	6.5	10.0	11.1	10.4	73%
MSCI World NTR Index (AUD)*	-4.0	-0.4	21.5	11.9	9.7	12.0	12.4	7.4	
Excess	-1.5	-3.1	-4.4	-8.7	-3.2	-2.0	-1.3	3.0	

CALENDAR YEAR RETURNS	CYTD (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)
MGOC	14.0	-15.7	19.3	0.0	28.1	9.8	14.2	3.7	15.3	14.5	48.7	18.3	9.8	2.4	6.6	-2.7
MSCI World NTR Index (AUD)*	16.7	-12.2	29.3	5.6	27.9	1.4	13.3	8.0	11.5	14.7	47.0	14.4	-5.6	-1.9	0.8	-25.3
Excess	-2.7	-3.5	-10.0	-5.6	0.2	8.4	0.9	-4.3	3.8	-0.2	1.7	3.9	15.4	4.3	5.8	22.6

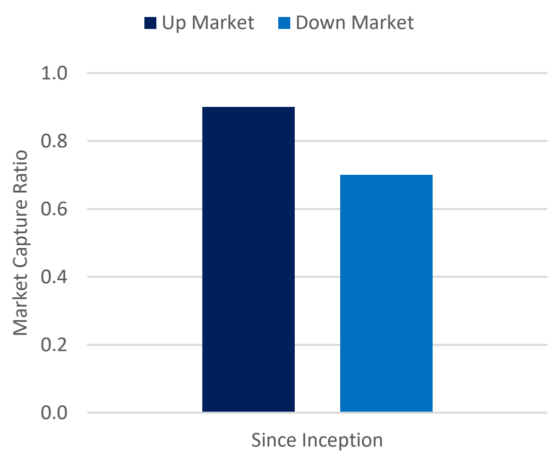
Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD $10,000[3]



Past performance is not a reliable indicator of future performance.

MARKET CAPTURE[4]



[1] Only applicable to investors applying for units and withdrawing units directly with the Responsible Entity.

[2] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

[3] 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). Returns denoted in AUD.

[4] Market capture is calculated after fees measured against the monthly returns of the MSCI World Net Total Return Index (AUD)*. Up market capture shows how the fund performed relative to the index while the market is rising. Down market capture shows how the fund performed relative to the index while the market is falling.

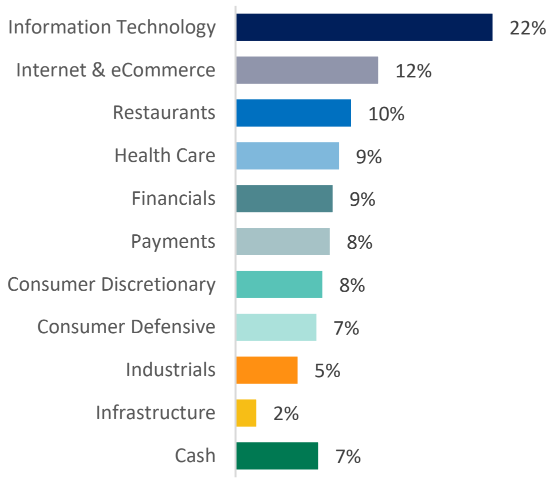
[+] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

[*] 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	6.5
Amazon.com Inc	Internet & eCommerce	6.1
UnitedHealth Group Inc	Health Care	4.5
Intuit Inc	Information Technology	4.4
MasterCard Inc	Payments	4.2
Lowe's Co Inc	Consumer Discretionary	4.2
SAP SE	Information Technology	4.2
Intercontinental Exchange Inc	Financials	4.1
Visa Inc	Payments	4.1
ASML Holding NV	Information Technology	3.9
	TOTAL:	46.2

SECTOR EXPOSURE BY SOURCE OF REVENUE[5]

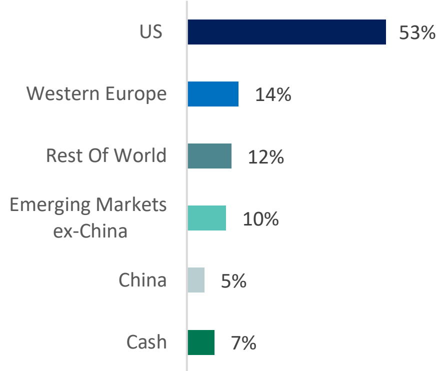


TOP CONTRIBUTORS/DETRACTORS 1 YEAR[6]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
SAP SE	1.7
ASML Holding NV	1.6
MasterCard Inc	1.6

TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
US Bancorp	-0.5
AIA Group Ltd	-0.4
Diageo Plc	-0.3

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[5]



[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.

Outlook

While we have long held that interest rates could prove stickier (at around 4% for US 10-year Treasuries) and inflation would come down rather slowly, we certainly did not anticipate a material further move higher for the long end of the curve. Inflation has been gradually moving lower and the large yield curve inversion, alongside other leading indicators, has suggested economic growth would continue to slow. While this has been true, economic growth has been resilient. Thus, the risk that inflation could break higher has not been removed, driving the Federal Reserve to revise upwards its projections of growth and rates, and lower for unemployment. Policymakers see GDP growth as higher in 2023 (2.1% vs 1% seen in June) and 2024 (1.5% vs 1.1%) and while it held the fed funds rate (FFR) projection at 5.6% this year, the same as in the June projection, it revised the FFR up 50bp to 5.1% in 2024, compared to 4.6% seen in June. The unemployment rate is projected lower at 3.8% (vs 4.1%) in 2023 and 4.1% (vs 4.5%) in 2024.

We sense the 80bp move up in US 10-year government bonds this quarter has come with a degree of sticker shock for most market participants. Higher long-term interest rates usually create their own headwind. US mortgage rates have jumped to over 7% and home purchases have again stalled, due not to a lack of demand but instead due to the cost of borrowing. House prices have been resilient with turnover low and supply insufficient to be a drag. This is not 2007 for houses! Many banks have large undigested, unrealised losses on their loan books they are now forced to hold to maturity. This slows the cycling of capital back into the economy (which typically slows growth) but this time it is fuelling a unique opportunity for private credit and other non-bank players to provide credit for the new projects being undertaken as the trends of decarbonisation, digitisation and deglobalisation gain momentum. US non-residential construction spend is strong and has one of the highest growth multipliers (estimated at 3x) of any industry.

The environment thus strikes us as one where the US growth slowdown seen so far begins to reaccelerate, perhaps in early 2024. The timing of such a reacceleration will determine if central banks feel compelled to add yet another rate rise into the mix. If this improved economic growth can happen, then there would be no need for rate cuts. Indeed, even as inflation trends to more acceptable levels, we expect the central banks will not want to risk restoking this by cutting rates. With the market pricing 60bp of rate cuts in 2024, the ongoing risk is these are not necessary and interest rates, across the entire yield curve, stay at higher (many of us with longer historical perspective may say 'more normal') levels.

Returning to the credit market issue of large unrealised losses, this is the financial risk vector we continue to watch. If any bank breaks rank, a repeat of March 2023 – liquidity runs and financial stress – is likely. It is difficult to see such a risk before it emerges, so we are avoiding banks and holding more cash given our capital protection goal. It is unclear if a prolonged period of higher bond yields will cause instabilities due to the large unrealised losses in the financial system. We would put this as a low-probability but high-impact event for stock markets. The resulting rapid tightening of financial conditions would make a case for slower growth, less inflationary risk and thus (the silver lining) lower rates as central banks adjust and cut rates.

We are more cautious about the growth outlook for Europe where recessionary conditions have already emerged, though if China were to provide sufficient support to improve the growth trajectory for its economy, Europe should benefit. These factors will be important for foreign exchange rates and whether the US dollar can sustain recent strength.

Stepping to the portfolio positioning, we are clearly broadly positive on growth assets and are happy to be investing in global equities. We believe that there are boundless opportunities in front of us for our superbly managed companies with strong competitive advantages to deliver exceptional earnings and cash flow growth in coming years. In the very near term, risks are elevated, and it is exceedingly difficult to judge if the jump in long-term bond yields will prove transitory or be reset to higher levels, in which case equity prices may need to adjust to a sustained higher rate environment. Strong earnings would help balance this risk and we note such moves often overshoot. The portfolio is thus 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 – Microsoft, Amazon, Intuit, SAP, Alphabet, Netflix, Trane Technologies, UnitedHealth Group, HCA Healthcare, among a myriad of others, discussed with us the innovations that place them at the forefront of their industries.

We anticipate that some volatility in markets may accompany us over the next few months as share prices continue to adapt to the evolving interest rate environment and reshaping of economic growth. Risk is not volatility. We work diligently to assess the real risks that face our portfolio companies and will continue to hold the line on our absolute return objective. We thank you for the trust you place in us.

Stock Story: Brookfield

(James McDonald – Investment Analyst)

Brookfield

Chances are you have come across Brookfield before. Perhaps your home is powered by a Brookfield wind and solar farm. Your phone might be connected to a Brookfield telecommunications tower or your computer to a Brookfield data centre. Your shoes may have been imported via a Brookfield port, in a shipping container leased from a Brookfield company. Your car could be one in three globally using a Brookfield-backed Clarios battery, or maybe it was purchased from a car dealership running on Brookfield-owned CDK software. Perhaps you have worked in a signature Brookfield Place office precinct in one of the major global financial centres. Brookfield might also manage some of your retirement savings on behalf of your superannuation fund.

Everywhere you look, Brookfield has a presence. The Canadian financial giant owns and operates almost US$900 billion of mostly infrastructure and real estate assets globally on behalf of its clients and shareholders. With backing from some of the world's largest pension and sovereign wealth funds, Brookfield has its eyes on opportunities to invest its ~US$80 billion cash pile in a digitalising, deglobalising and decarbonising world.

Tracing its origins to the 1899 formation of the São Paulo Tramway, Light and Power Company, a Brazilian electricity utility, Brookfield, in its various forms, has always sought to own, develop and operate critical infrastructure projects and real estate assets. After decades of investing its own capital, Brookfield opened its doors to external investors in the early 2000s, repurposing as Brookfield Asset Management, now one of the largest global alternative asset managers with real estate, infrastructure, private equity and private credit asset capabilities, the latter in partnership with Howard Mark's Oaktree.

Brookfield forecasts it will bring in US$150 billion on behalf of its clients in 2023, which it will invest across three themes underpinning its strategies. The first is the increasing digitalisation of the global economy. Brookfield has invested in data centres to power the shift to "the cloud", telecommunications towers to power the growth of 5G, and fibre-optic cables to speed up internet connections. The second theme, deglobalisation, has seen Brookfield invest in projects and businesses exposed to the reshoring of manufacturing, with recent investments including a US$15 billion contribution to fund a new Intel® semiconductor fabrication plant in Arizona and US$13 billion for Triton International, the world's largest lessor of freight containers. Last, in decarbonisation, Brookfield is putting money to work to reduce emissions, bidding for Australia's Origin Energy with a commitment to spend a further US$20 billion on new renewable energy projects in Australia.

Brookfield generates profits in several ways. Most significant are the fees earned by managing client assets at Brookfield Asset Management, which grows as more investors commit money to its investment vehicles. Historically, Brookfield invested on behalf of large pension and sovereign wealth funds in North America but now has its eyes on larger pools of capital in Asia and the Middle East, the insurance sector and among retail investors, all of which typically have low exposure to alternative investments. The second way Brookfield makes money is by owning ~US$53 billion of infrastructure, renewable and real estate assets, which typically generate steady cash flows. Last, in recent years, it has built a North American insurance business focused on annuity-life products, known as Brookfield Reinsurance. These three earnings streams, housed with Brookfield Corporation (BN:NYSE, BN:TSX), generate consistent cash flow, which is then redeployed back into opportunities to continue the compounding. Key to it all is a long track record of exceptional investment performance for clients and shareholders.

Now, over a century since Brookfield began and the future remains bright. The expertise it has built from owning and operating hundreds of businesses is in high demand as the world tackles problems from climate change to inflation and rising interest rates. With a network of businesses, global banking relationships and deep pools of flexible capital, Brookfield has positioned itself as a partner of choice for those in need of capital – and there are plenty.

Source: Brookfield, Sentieo, Magellan