Magellan High Conviction Fund

ARSN: 164 285 947

MAGELLAN HIGH CONVICTION FUND CLASS A | APIR: MGE0005AU
MAGELLAN HIGH CONVICTION FUND CLASS B | APIR: MGE9885AU

MAGELLAN ASSET MANAGEMENT

AS AT 31 MARCH 2024

PORTFOLIO MANAGERS NIKKI THOMAS, CFA AND ALAN PULLEN

INVESTMENT OBJECTIVE AND PHILOSOPHY

Objectives: To achieve attractive risk-adjusted returns over the medium to long-term.

Aims to deliver 10% p.a. net of fees over the economic cycle.

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

PORTFOLIO CONSTRUCTION

A concentrated portfolio of 10-20 high quality companies meaningfully diversified in risk exposure and correlations seeking to achieve strong risk-adjusted, not benchmark-relative returns.

Cash and cash equivalents exposure between 0 - 50%.

The Fund may, from time to time, hedge some or all of the capital component of the foreign currency exposure of the fund arising from investments in overseas markets back to Australian Dollars.

INVESTMENT RISKS

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

MAGELLAN HIGH CONVICTION FUND: KEY PORTFOLIO INFORMATION

CLASS	FUND SIZE	BUY/SELL SPREAD	MANAGEMENT AND PERFORMANCE FEES[1]	INCEPTION DATE
A	AUD $186.5 million	0.07% / 0.07%	1.50% p.a. and performance fee of 10% of excess return^	1 July 2013
B	AUD $38.7 million	0.07% / 0.07%	0.78% p.a. and performance fee of 20% of excess return^^	15 November 2017

^ 10.0% of the excess return of Class A Units of the Fund above the Absolute Return Performance Hurdle of 10% per annum. Additionally, Performance Fees are subject to a high water mark.

^^ 20.0% of the excess return of Class B units of the Fund above the Absolute Return Performance hurdle of 10% per annum. Additionally, Performance Fees are subject to a high water mark. The performance fee for Class B Units is subject to a cap of 2.22% per annum.

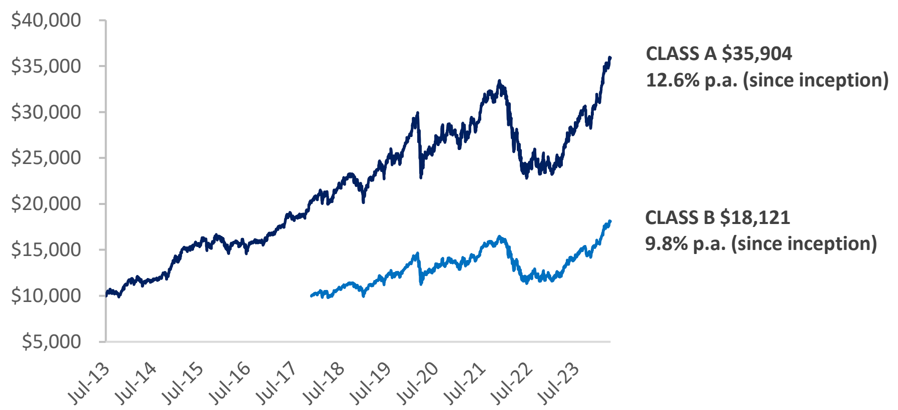
PERFORMANCE[2]

	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+
Magellan High Conviction Fund - Class A	1.7	14.4	36.8	8.8	9.1	10.7	11.9	12.6	68%
Magellan High Conviction Fund - Class B	1.9	14.7	37.9	9.5	9.6	-	-	9.8	29%

	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017* (%)	2016 (%)	2015 (%)	2014 (%)	2013 (part year)
Magellan High Conviction Fund - Class A	14.4	34.5	-27.8	20.8	-2.4	29.6	3.4	23.3	3.5	13.6	19.8	17.7
Magellan High Conviction Fund - Class B	14.7	35.5	-27.3	21.1	-1.9	29.2	3.3	1.0	-	-	-	-

Past performance is not a reliable indicator of future performance. *Class B part year return, inception date 15-Nov-2017

PERFORMANCE CHART GROWTH OF AUD $10,000[2]



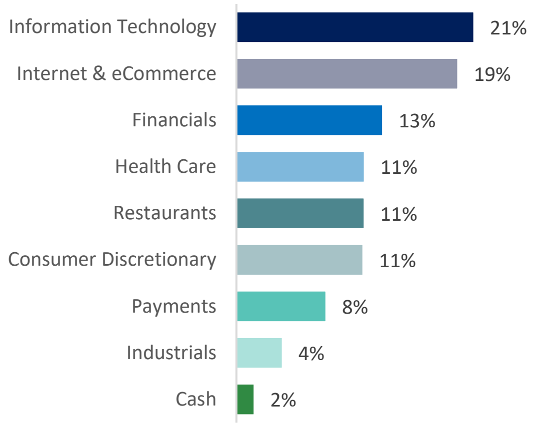
Past performance is not a reliable indicator of future performance.

FUND CHARACTERISTICS[3]

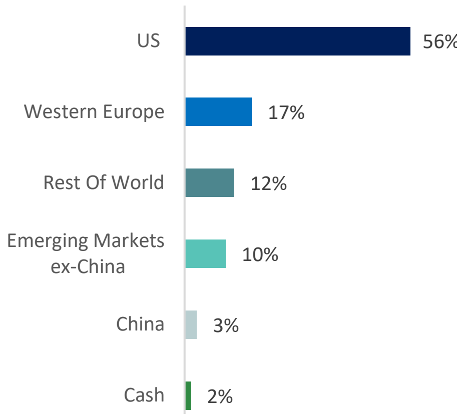
3-YEAR	AVERAGE	HIGH	LOW
Cash Weight	4.6%	18.4%	1.0%
Number of Stocks	13	16	10
Hedging Weight	0.3%	10.2%	0.0%

[1] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.
[2] 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.
[3] 3 year average cash weight and hedging ratio are calculated using month end values over the period.
+ Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

SECTOR EXPOSURE BY SOURCE OF REVENUE[4]



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[4]



TOP CONTRIBUTORS/DETRACTORS 1 YEAR[5]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Amazon.com Inc	6.4
Microsoft Corporation	5.2
Chipotle Mexican Grill Inc	4.1
TOP 3 DETRACTORS	**CONTRIBUTION TO RETURN (%)**
WEC Energy Group Inc	-0.8
Diageo Plc	-0.8
UnitedHealth Group Inc	-0.2

TOP 5 HOLDINGS (ALPHABETICAL ORDER)

STOCK	SECTOR[4]
Amazon.com Inc	Internet & eCommerce
Booking Holdings Inc	Consumer Discretionary
Intercontinental Exchange Inc	Financials
Microsoft Corporation	Information Technology
Visa Inc	Payments

[4] 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.
[5] 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 which 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 rose over 10% during the March quarter with our holdings in ASML, Amazon, Chipotle Mexican Grill, Safran and Microsoft the largest contributors. Safran and ASML both rose over 30% as the potential for strong growth ahead for both companies remains evident. Amazon and Microsoft are superbly positioned as Cloud transition re-accelerates; we anticipate the trough on the slowdown was 4Q23. With AI being the new major technological innovation that is just emerging, we believe both companies are superbly positioned to capitalise on this in the years ahead.

With policy rates likely to have peaked in most parts of the world and inflation normalising to low single-digit levels, the headwind to equities and structural growth opportunities within equities has abated. The outlook for earnings growth and returns on capital are thus back in vogue and back in focus. Some volatility is likely as we traverse the next six to nine months as data, most especially around inflation given recent stickiness, determines the path of rates and stock prices. Beyond this near-term uncertainty, it is the long-term total addressable market opportunities alongside advantaged competitive positions that we believe are evident for many of our holdings that are back in focus for investors.

With the need for deep pockets and large data sets for commercialisation of Gen AI we believe the large cloud platforms (AWS inside Amazon; Azure within Microsoft; GCP within Alphabet) are well positioned to capitalise. We anticipate strength in Google Cloud and delivery on cost savings during 2024 will be important for Alphabet as it confronts the innovations that will likely see it cede some share in search advertising (from over 90% today). Search advertising is likely to be a good growth industry and benefit from a cycle upturn and election year, so we do not see share loss as likely to lower its advertising revenues overall. 1Q24 results will be important in measuring the speed of change across these vectors for Alphabet.

We remain of the view that global travel and spending on experiences is a 'better than GDP growth' industry. Both Safran and Booking are very well positioned to capture share and strong growth ahead. Boeing's issues and slower-than-hoped new plane deliveries mean more hours for Safran engines on existing fleets, and thus more aftermarket spending. Chipotle Mexican Grill is a high-quality Mexican food chain (Guzman & Gomez copied the concept in large part) that has an ambition to grow its restaurant footprint by 8% to 10% p.a. for many years. It delivers strong returns on the capital and is very well positioned against 'value' relative to peers for the quality of the food it serves. It continues to both innovate and execute with a myopic focus on the details of running efficient restaurants and so we anticipate it to deliver compelling long-term compound growth. A 50-for-1 share split announced in March by Chipotle should occur in June and, while having no impact on fundamental value, it may expand access to smaller investors.

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

Outlook

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.

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 potential 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 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 this positions them to succeed and outgrow their respective industries. The quality threshold for inclusion in the Strategy remains high.