

MAGELLAN HIGH CONVICTION TRUST (Managed Fund)

TICKER: MHHT | APIR: MGE1055AU | ARSN: 634 789 754

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



Nikki Thomas, CFA
Portfolio Manager



Alan Pullen
Portfolio Manager

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Dear Investor,

The Magellan High Conviction strategy is a more concentrated and slightly more risk-assertive version of Magellan's core global strategy. We can, and will, take more risk when we consider there are likely to be commensurate additional returns available while we stay true to Magellan's central philosophy on high quality. In this way, the portfolio seeks to deliver an attractive risk-adjusted absolute return by investing in 10 to 20 of what we consider to be the world's best global stocks. The portfolio also can actively hedge to reduce the impact of foreign currency exposure when the Australian dollar trades at extremes versus its historical range.

The portfolio's investment principles recognise that superior risk-adjusted returns are available to investors who compound capital at satisfactory levels over long periods.

In managing the portfolio, we take a long-term approach, always keeping capital preservation front of mind but understanding that short-term price volatility is to be embraced and exploited opportunistically. The degree of concentration, the select nature of the investable universe and constant valuation discipline results in the portfolio bearing no resemblance to equity indices or most of our peers. Constraints on the portfolio are limited, allowing for flexibility, objectivity and differentiation. Finally, the portfolio focuses on

risk-adjusted absolute returns rather than benchmark-relative returns. It is the compound rate of absolute returns that we aim to achieve for investors over the longer term that matters.

The Magellan High Conviction portfolio leverages Magellan's investment process, which integrates three key disciplines:

- Intensive bottom-up industry and business analysis to identify where there is value and monitoring high-quality companies. We aim to be highly disciplined about defining our circle of competence and focusing within it to translate that into better investment decisions. While there are many good investment opportunities outside one's circle of competence, there is a substantial disadvantage in attempting to become an expert in too many things. That said, we dig deeply into emerging secular trends to keep expanding our expertise and to maintain an open mind on the way the future will evolve.
- Broad and detailed macroeconomic insights to manage exposure to aggregation and economic risks; and
- Rigorous portfolio construction and risk discipline. This includes monitoring correlations across portfolio holdings and ensuring sensible diversification while still leaning into, and sizing the opportunities of, identified structural tailwinds.

"We are in the business of investment and not speculation."

To be in the business of 'investment' is to have a mindset that when purchasing shares on stock markets, you are buying an entitlement to a share of the cash flows that a business will produce over time. Your job as an investor is to assess (if you can) the likely cash flows a business will generate over its lifetime, discount these cash flows back to the present value (at an appropriate discount rate) and determine whether you are likely to generate an acceptable rate of return via buying a share in the business at the prevailing share price. Conversely, speculation involves trading in anticipation that a share price will move upwards or downwards over a short time horizon, typically less than 12 months.

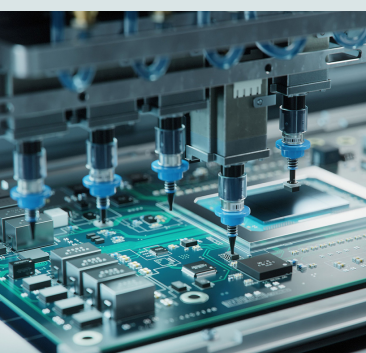
In 2008, John Bogle, founder of The Vanguard Group, said in a speech to a conference of financial planners:

“Investing to me is all about the long-term ownership of businesses, focused on the gradual accretion in intrinsic value that is derived from the ability of our corporations to produce the goods and services that our consumers and savers demand, to compete effectively, to thrive on the entrepreneurship, and to capitalise on change, adding value to our society. Speculation is just the opposite. It represents the short-term, not long-term, holding of financial instruments, not businesses, focused (usually) on the belief that their prices, as distinct from their intrinsic values, will rise.”

The world continues to transform

Charlie Munger said: *“We all are learning, modifying or destroying ideas all the time. Rapid destruction of your ideas when the time is right is one of the most valuable qualities you can acquire. You must force yourself to consider arguments on the other side.”*

Today, this principle seems ever more relevant. While some are quick to define the current excitement about Generative Artificial Intelligence (AI) as hype, we anticipate it will prove to be a transformative step forward in technology that will open up new, exciting possibilities. It is still early days and so the paths to commercialisation remain ahead of us and winners and losers will emerge over coming years. The technology itself is rapidly evolving and companies and regulators are working furiously to understand, invest and adapt to maximise beneficial outcomes and minimise the risks. To touch quickly on what it is we are talking about here: First, AI consists of rules programmed to perform specific tasks. The feeds and ads in search engines or on social media, the suggestions on Netflix or YouTube, the reply prompts that appear in email, and map route options in navigation like Google Maps – all use AI and have done so for years.



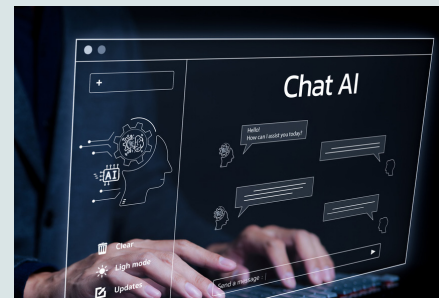
Enabled by improving semiconductor chips, vast and growing datasets and the lowering of the cost of computing, deep machine learning accelerated, and Large Language Models (LLMs) emerged. These models are man-made neural networks (think of them as synthetic brains) trained on large datasets of text. An analogy may be having a child who

now has the capacity to read all the textbooks in the library in a few minutes and synthesise all that information into knowledge that is stitched together. These LLMs have got bigger and bigger, measured in the number of parameters in the model (school library to state library to world library). A computational enabler of this was an invention by Google in 2017 of an architecture called a transformer.

LLMs are sometimes called foundational models and estimates suggest at least 20 unique models exist today. These have progressed in earnest in the 2000s; for example, OpenAI’s GPT-3 had 174 billion parameters and made major breakthroughs in conversational ability. Deep Mind (an

Alphabet division) developed Gopher in 2021 with 280 billion parameters. GPT-4 by OpenAI this year is estimated to have around 1 trillion parameters and there are others of similar scale. Some are open source; some closed; some specialise in specific content such as scientific research, film and theatre scripting, finance or medical knowledge (e.g., BloombergGPT) while others are more general.

These LLMs are what has enabled ‘Generative AI’ by bringing a vastly wider array of abilities to AI such that it now produces NEW content, but content that is well short of perfect. While appearing ‘intelligent’ due to language fluency, extraordinary capability and deep knowledge, they cannot reason. Instead, they make judgements and can produce answers that are made up (hallucinate). The data they are trained on is also extremely important and biases or errors in that data will live on. There are interesting discussions concerning the data these LLMs are now producing – does this synthetic new ‘knowledge’ create negative feedback loops or distort reality over time, and how will information theory evolve? Conversations focus on the risks of not managing how these models are used; the major companies are trying to ensure they develop in a rules-based, structured way. Other central focuses include the need for regulation and privacy protection. The speed of acceleration in Generative AI is mind-boggling. Software developers are talking of progress in coding that has moved timelines down from years to days.



Given we are still in the infancy of this transformation, it is not possible to know exactly how things will progress. Our team is thinking deeply about the frameworks we should employ in scoping the risks and opportunities for our investments. The advancements themselves rely on a group of technology enablers and these ‘picks and shovels’ of the transformation are the most compelling way to capture the opportunity today. Some key factors we are exploring for other industries (and also technology) fall under three broad categories: Addressable market considerations – are there new markets or expansion of existing markets; Economic moat considerations – will industry structures change, will incumbents be advantaged or disrupted; what factors will create barriers to entry or cost advantages; and Cost considerations – can things be done more efficiently or more accurately, will Gen AI replace employees and so on.

We believe companies with large, unique datasets are advantaged given the opportunity this will present to differentiate their value. We also anticipate huge new addressable markets and commercial applications will be created, especially amongst the enablers of the changes, and we see many of our portfolio companies as uniquely advantaged as progress continues. There is also no doubt that new ways of doing things will emerge, in the same way the internet and smartphones have powerfully influenced how we live, spend, work, entertain and engage. Newspapers barely exist today; what will be replaced in the future and what companies are vulnerable to that disruption?

MARKET COMMENTARY

Global shares gained in the June quarter, with the MSCI World Index adding 6.8% in USD and 7.5% in AUD as the Federal Reserve approached the end of its rate-hiking campaign, US bank turmoil eased with few observable new casualties and optimism about the potential of recent developments in AI continued. Nine of the eleven sectors advanced in local currency terms, but gains were largely concentrated in the Information Technology (+15.0%), Consumer Discretionary (+11.3%) and Communication Services (+10.2%) sectors that benefited from growing confidence in the potential for AI to drastically influence societies and economies. The detractors were the Energy (-1.0%) and Utilities (-0.7%) sectors that fell as the outlook for commodity prices softened.

On a regional basis, Japanese shares, as measured by the Nikkei 225 index, added 18.4% on growing confidence in the outlook for profit growth and still accommodative monetary policy pursued by the Bank of Japan under new leadership. US shares were the other standout performer, with the S&P 500 rising 8.3% in the June quarter on the back of continued excitement about developments in AI and signals that the Federal Reserve was nearing the end of its rate tightening cycle as inflation continued to improve. Importantly, economic momentum in the US appeared to be relatively sound, with unemployment still low, and construction activity assisted by increased homebuilder confidence and the Inflation Reduction Act.

Across the Atlantic, pressures on economic activity have been larger and inflationary pressures more intense, partly because

wages in Europe are more often contractually tied to past increases in consumer prices than in the US and are hence stickier. The Euro Stoxx 600 added just 0.9% during the quarter. Australia's ASX 200 increased 1.0%.

Chinese shares meanwhile came under pressure, with the CSI 300 index falling 5.1% as fears about the Chinese economic recovery continued to mount. Expectations

for a reopening boom have failed to materialise so far this year, forcing policymakers to step in with some incremental interventions to increase stimulus during the quarter. To date, interventions have been small scale rather than material as policymakers balance competing priorities including reducing leverage in the system.

Global shares rose in the past 12 months, with the MSCI World Index rising 18.5% in USD and 22.4% in AUD, despite an aggressive tightening of monetary policy from global central banks, turmoil in the banking sector, and elevated geopolitical tensions. The key drivers of the positive sentiment included rapid advances in Artificial Intelligence, still solid economic momentum in the US and signs that inflation, while still too high, was likely to steadily improve (reducing the need for such high interest rates). All but one of the eleven sectors rose in local currency terms, with Information Technology (36.7%) and Industrials (27.0%) adding the most. The Real Estate sector fell

–5.5% after continued pressure on office landlords from high vacancy rates and high interest rates, the former a symptom of post-pandemic work-from-home policies.

US shares rose, with the S&P 500 adding 17.6% in USD in a 12 month period that included the release of ChatGPT by OpenAI, turmoil in the US banking sector, the mid-term elections, a showdown over the Federal debt ceiling, and continued geopolitical tensions between the US and China, which included a suspected Chinese spy balloon being shot down by a US fighter jet off the East Coast of the US. The Federal Reserve increased interest rates by 350bp to 5.0-5.25% before pausing at its June meeting, with inflation much improved over the past year. The consumer price index rose 4.0% in the 12 months to May, down from 8.6% a year earlier. Long-term risk-free interest rates, such as the 10-year US Treasury yield remained relatively-well contained, ending the period at 3.81%.

European shares also increased in the past year, with the Euro Stoxx 600 index rising 13.4% in Euro terms. The European economy was more resilient than expected to the winter energy shock caused by the Russian invasion of Ukraine as LNG imports and alternative sources of energy supplemented the shortfall and weather proved milder than historical averages. But, economic growth including in the German industrial base ended the period at stagnant levels. Interest rates rose sharply in Europe too, with both the European Union and the United Kingdom struggling with much-too-high inflation. A resolution of the war in Ukraine looks no closer, with limited progress made during the much-anticipated Ukrainian counteroffensive that began in May.

Japanese shares stood out in Asia, as the Nikkei 225 advanced 25.7% on the back of strong Japanese earnings growth and still accommodative monetary policy at the Bank of Japan. Chinese shares, as measured by the CSI 300 index, fell 14.3% after optimism that the reopening of the Chinese economy would kickstart growth faded. Towards the end of the period, Chinese policymakers began to ease policy further, but we have yet to see the type of large-scale stimulus unleashed post the global financial crisis that accelerated the growth of Chinese industry. Australian shares ended the period 14.8% higher.

PORTFOLIO COMMENTARY

The Fund rose during the June quarter and over the year ended 30 June 2023. A change of Portfolio Managers for the strategy occurred in October 2022 and we took the opportunity to review the structure of the portfolio, increase the diversity of the holdings and reduce aggregation risks and to broaden the breadth of industry and structural drivers.

For the quarter the largest contributors were the holdings in Amazon, Microsoft, Chipotle Mexican Grill and Alphabet, which all rose over 15%. Amazon, Microsoft and Alphabet all performed well in 2023 with each rebounding as the market has increasingly gained conviction that the revenue growth slowdown will trough and cost-cutting will restore the margin deterioration in coming quarters. In addition, all are seen as enablers of the acceleration of computing as Generative AI takes hold and thus the longer-term revenue opportunity of each is expanding.



Over the past 12 months, strong contributions came from Microsoft, Booking, Safran, Netflix and Chipotle Mexican Grill. Safran and Booking Holdings are benefiting from the recovery



in both leisure and business travel with more flights returning. Netflix recouped big falls as it addressed password sharing and introduced an ad-supported subscription model before we repositioned the portfolio and took profits on the holding in November 2022.

The largest detractor in the June quarter was Diageo as it fell 6.5% on concerns of slowing revenue growth, off a high base, in its large US market where independent surveys of sell-out in some of its

channels suggest a marked slowing in consumer demand. We see upside risks to groupwide expectations with resilience and strong trends in Diageo's other geographies, especially in emerging markets, balancing the slowing in the US. WEC Energy, a US utility, also fell in the June quarter in line with the broader utilities sector.

For the year Meta Platforms detracted from the portfolio returns as we exited in November 2022 and repositioned the portfolio to reduce concentration in technology names. Meta Platforms had been focused on its Metaverse investment strategy and was investing heavily while also experiencing significant deterioration in the core advertising business due to TikTok competition and Apple's privacy changes. Subsequent to our exit, the company pivoted to cut costs aggressively and focus instead on AI, which has been well received by investors and seen the earnings outlook improve significantly.

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

PORTFOLIO POSITIONING

All our investments are made in accordance with our investment principles; to invest in outstanding businesses that have attractive underlying business economics because they are protected by sustainable long-term competitive advantages or, in Buffett's words, an "economic moat". In our opinion, investing in outstanding businesses at appropriate prices is a low-risk investment style and will produce more certain investment returns over time than many other investment approaches.

In a world where the pace of change is accelerating, many traditional industry structures are being redefined and many previously strong businesses are being weakened or displaced. By constructing a well-diversified and high-conviction portfolio of high-quality businesses with long-term competitive advantages and that are well positioned for this changing world, we anticipate an enhanced likelihood of delivering on our goals.

Buffett wrote in his 1992 letter to shareholders: *"Your goal as an investor should be simply to purchase, at a rational price, a part interest in an easily understood business whose earnings are virtually certain to be materially higher 5, 10 and 20 years*

from now." While the idea is simple in theory, there are only a relatively small number of companies in the world whose earnings are almost certain to grow significantly in coming years.

Our investment objectives are clear. We seek to deliver satisfactory investment returns over the medium to long term while minimising the risk of a permanent capital loss. Only by generating investment returns that exceed the rate of inflation by a reasonable margin will investors meaningfully increase their wealth over time.

The Magellan High Conviction Strategy is positioned in companies we believe can deliver compelling long-term returns across different underlying industry and structural trends. We believe the interest rate backdrop is increasingly supportive of stable discount rates, such that the earnings and cash flow growth of the companies will predominantly determine the returns for our investments. The portfolio is capturing several structural tailwinds including:

Travel: 13% of the portfolio is in companies benefiting as borders reopen and business and leisure travel rebounds (Booking Holdings and Safran).

Restaurants: 12% of the portfolio is in Restaurant companies such as Yum! Brands (owner of KFC, Pizza Hut and Taco Bell) and Chipotle Mexican Grill that continue to expand their store networks to new markets and capture strong returns and rapid cash paybacks on those investments.

Cloud: 11% of the portfolio is exposed to the shift to the cloud through the leading western 'hyperscale' cloud providers that are part of Microsoft, Alphabet and Amazon. The growth in cloud use 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: 11% of the portfolio is capturing strong subscription revenue growth via enterprise software companies (Microsoft and Salesforce) that boost company productivity. Both are well positioned to capture expanded revenue opportunities as Generative AI takes hold, and both have aggressively reduced costs to improve efficiency.

Energy Transition: 9% of the portfolio is in companies exposed to the energy transition (Brookfield Corporation and WEC Energy).

Payments: 9% of the portfolio is in the leading payments company Visa leveraged to the cash-to-cashless transition across consumer, business and government payment networks.

Financial Exchanges: 9% of the portfolio is in Intercontinental Exchange, a company that provides essential financial markets infrastructure, which operates some of the largest futures and equities marketplaces and is working to digitise the mortgage technology market.



OUTLOOK

The intertwined evolution of economic growth, inflation and interest rate setting has continued without directional change. That is, inflation is slowing, cash interest rate settings by central banks are rising and economic growth is looking increasingly at risk of recession. We believe inflation will continue to be the core focus of central banks and we will need to continue to see lower inflation data points over 2023 if central bank rate rises are to pause.

While we are closing in on a turning point for central banks' monetary tightening, the challenges are greater outside of the US where market and industry structures are making it harder to bring down inflation. Thus the challenge of higher and higher rates makes those economies (UK, Europe, Canada, Australia) at risk of a more painful economic slowdown/deeper recession. We continue to watch inflation expectations survey data, which shows worrisome levels of elevated and rising expectations amongst consumers in Australia (from 5% to 5.2% in June) and the UK, while in the US both business and consumer inflation expectations have remained anchored and are indeed falling. Germany has recently reported two quarters of negative real GDP growth and so is technically in recession. Recessionary conditions in the coming months continue to be our base case, though we believe in the US this is likely to be mild with potentially slightly positive nominal growth (barring a financial shock).

No material new adverse events in the financial sector have followed those of March and April 2023, but we continue to view the risk of similar events as heightened. If such an event occurred, creating a credit crisis or liquidity event, it would deepen the economic slowing. We are not holding any exposure to banks as we view the outlook for earnings for the sector as challenged. Many will recall that the events of 2007 and 2008 occurred with long lags between them, accompanied by strong markets. The first signs of stress were in August/September 2007, Bear Stearns collapsed in March 2008, Freddie and Fannie Mac were rescued by the US government and Lehmann Brothers went bankrupt in September 2008;

markets bottomed in March 2009. We point out the risk of a similar event not to be alarmist or even to draw comparison to the GFC, but to remind ourselves that financial markets can unravel over months and in stages, and we would be complacent to assume all is resolved in the financial system today. Strong equity markets do not preclude a new financial shock ahead.

We continue to view the macro backdrop as biasing the risks to the long end of the yield curve, or 10-year government bond yields, to the downside. This is a positive for the valuations of longer-duration investments, especially those with strong cash flows, high returns on capital and low economic cycle exposure.

At the same time, the innovation in Artificial Intelligence is providing many new opportunities for companies, as well as disruption risks that always result from major progressive evolutions. The other areas of activity we remain very focused on are the innovation and investment to materially reduce economies' carbon intensity. Given there is a distinct focus within both technology and industrial sectors, the normal economic cyclicity of a sub-group of companies may be countered by this uptick in spending and new orders. We believe this creates some interesting investment opportunities as earnings may prove far more resilient for these companies than in typical economic slowdowns/recessions. An added layer of growth capex is also stemming from the restructuring of supply chains away from China, with the semiconductor industry the poster child of this investment.

Yours sincerely,



Nikki Thomas and Alan Pullen

July 2023

IMPORTANT INFORMATION

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Magellan High Conviction Trust (Managed Fund)

TICKER: MHHT | APIR: MGE1055AU | ARSN: 634 789 754



AS AT 30 JUNE 2023

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.

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 trust may, from time to time, hedge some or all of the capital component of the foreign currency exposure of the trust 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 the trust, we have provided details of risks in the relevant Product Disclosure Statement or offer document. You can view the PDS for the trust on Magellan's website www.magellangroup.com.au

MAGELLAN HIGH CONVICTION TRUST (MANAGED FUND): KEY PORTFOLIO INFORMATION

TICKER	TRUST SIZE	BUY/SELL SPREAD ¹	MANAGEMENT AND PERFORMANCE FEES ²	INCEPTION DATE
MHHT	AUD \$456.3 million	0.07% / 0.07%	1.50% p.a. and performance fee of 10% of excess return ³	11 October 2019

¹ 10.0% of the excess return of the Trust above the Absolute Return Performance hurdle of 10% per annum. Additionally, Performance Fees are subject to a high water mark.

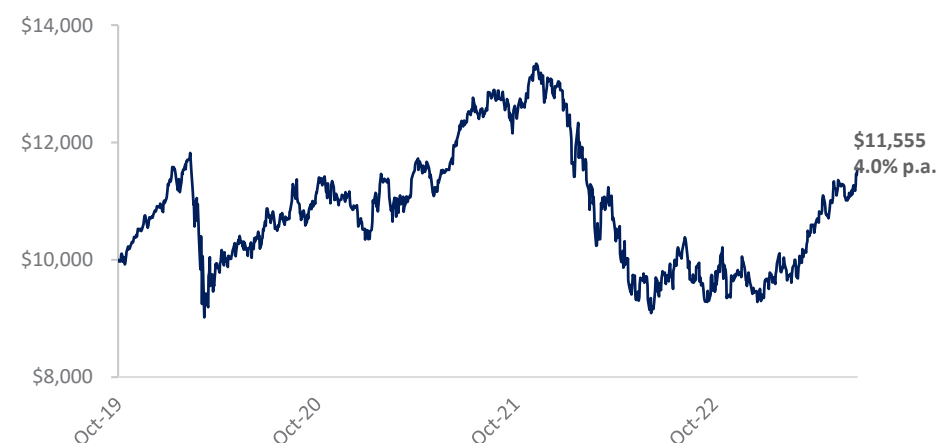
PERFORMANCE³

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
MHHT	2.4	10.1	23.3	3.7	4.0

CALENDAR YEAR RETURNS	CYTD (%)	2022 (%)	2021 (%)	2020 (%)	2019 (part year)
MHHT	23.9	-27.7	21.2	-1.6	8.2

Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD \$10,000³



Past performance is not a reliable indicator of future performance.

TRUST CHARACTERISTICS⁴

	3-YEAR		
	AVERAGE	HIGH	LOW
Cash Weight	7.4%	21.6%	1.1%
Number of Stocks	11	14	9
Hedging Ratio	2.2%	18.0%	0.0%

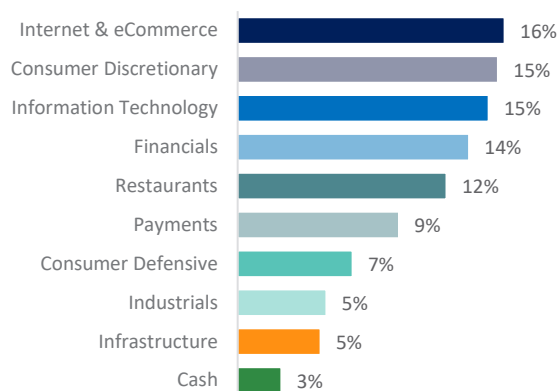
¹ Only applicable to investors applying for units and withdrawing units directly with the Responsible Entity.

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

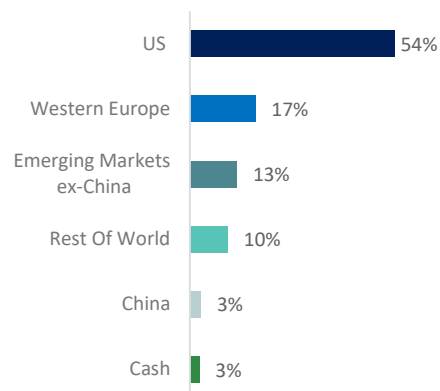
³ Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.

⁴ 3-year average cash weight and hedging ratio are calculated using month end values over the period.

SECTOR EXPOSURE BY SOURCE OF REVENUE⁵



GEOGRAPHIC EXPOSURE BY SOURCE OF REVENUE⁵



TOP CONTRIBUTORS/DETRACTORS - 1 YEAR⁶

TOP CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Microsoft Corporation	3.6
Booking Holdings Inc	3.1
Safran SA	3.0
TOP DETRACTORS	CONTRIBUTION TO RETURN (%)
Meta Platforms Inc	-1.3
Alibaba	-0.6
WEC Energy Group Inc	-0.2

TOP 5 HOLDINGS (ALPHABETICAL ORDER)

STOCK	SECTOR ⁵
Amazon.com Inc	Internet & eCommerce
Intercontinental Exchange Inc	Financials
Microsoft Corporation	Information Technology
Visa Inc	Payments
Yum! Brands Inc	Restaurants

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.

IMPORTANT INFORMATION

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STOCK STORY: AMAZON

The secret sauce of an ever-evolving innovation machine



Amazon's almost 30-year journey has been one of constant evolution, driven by innovation, and guided by the long-term vision of its founder, Jeff Bezos. The business developed in its early years with an initial focus on selling books before eventually expanding into other product categories, including music, electronics and beyond. Over time it has shifted from a goods retailer to services platform as it gave external parties access to its marketplace (3P sellers account for ~55% of all unit sales) and other operational capabilities (such as Fulfilled by Amazon or Buy With Prime). The company has a long track record of creating disruptive products – as it did with the Kindle and Alexa – and entirely new markets – as it has done with AWS and cloud computing. So, what's the secret sauce? At the heart of this ever-evolving innovation machine lie three key elements: a distinct and well-defined corporate culture, a decentralised and nimble operational structure, and a willingness to invest and remain focused on the long term.

Amazon has a distinct corporate culture enshrined in 16 leadership principles, which provide a framework for decision-making, problem-solving and collaboration across the organisation. These principles are deeply ingrained in the company's DNA and influence how employees approach their work. While all are important, we would highlight just two that are particularly pertinent to innovation. Principle #3, "Invent and Simplify", encourages employees to continuously seek inventive solutions and challenge the status quo. It instils a mindset of constant improvement and the pursuit of ground-breaking ideas that can reshape industries. Principle #8, "Think Big", empowers employees to envision ambitious, audacious goals and imagine possibilities beyond what may seem achievable. It also expresses Amazon's appetite for taking bold risks and making substantial investments in emerging technologies and ventures.

Amazon's corporate workforce largely consists of small, autonomous "two-pizza" teams (named because they should be small enough to be fed with as much) that utilise a common set of standardised, shared functions or "services". Teams comprise a mixture of multi-disciplinary roles and are empowered to make decisions quickly, iterate on ideas, and drive innovation in their respective areas. By keeping teams small, Amazon minimises bureaucracy and encourages a sense of ownership and agility. The structure fosters a culture of experimentation and learning from failures, as teams can quickly iterate and adapt their strategies based on real-time feedback. Importantly, it also

enables rapid scaling into new areas of focus or opportunity without introducing unnecessary complexity and dependencies.

Amazon has consistently demonstrated its willingness to forgo immediate profitability in favour of maximising future opportunities. In 2011, in response to a shareholder question regarding Amazon's willingness to take bold bets, Bezos commented, "We are willing to invent. We are willing to think long term. We start with the customer and work backwards. And, very importantly, we are willing to be misunderstood for long periods of time". This quote reflects Amazon's commitment to pursuing its long-term vision, and its sentiment is often conveyed by other leaders within the company, including the current CEO, Andy Jassy. The company famously took >8 years to realise its first annual profit, prioritizing the development of its platform and improvement of the customer experience. Facing capacity constraints in 2014, Amazon decided to embark on the build-out of its own logistics network. While this weighed on profitability in the short term, it established a strong competitive advantage, and by 2021 Amazon was shipping more parcels across the USA than FedEx. Similarly, Amazon's cloud computing business, AWS, was initially met with scepticism, but the company persisted in investing heavily in its development and expansion, and today the division generates over \$80bn revenue per annum. Looking forward, we expect the company will continue to invest in big bets across healthcare, advertising, media and logistics in pursuit of its next growth pillar.

In summary, Amazon's success lies in its constant evolution and drive to innovate. Its distinct corporate culture promotes entrepreneurship and challenges the status quo. A decentralised operational structure empowers agile teams and enables rapid scaling without adding complexity, and Amazon's capacity to invest for the long term, exemplified by the buildout of its fulfilment and logistics infrastructure and AWS, is a key competitive advantage versus more myopic competitors. With a commitment to thinking long term and willingness to be misunderstood, we expect Amazon will continue to thrive.

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