

Magellan High Conviction Fund

Portfolio positioning (as at 31 March 2020)

We have taken action to increase the defensiveness of the Magellan High Conviction Fund portfolio and have increased the cash in the strategy from about 5% to 28%. We have been surgical in selling down positions that we feel are more exposed in this environment. All cash is held in US dollars.

We believe the Magellan High Conviction Fund portfolio has numerous advantages to weather this situation. These include:

- We have about 63% of our portfolio in 4 companies and cash that are likely to prove resilient through the shutdown and during a subsequent economic downturn;
 - Cash is at 28% (held in US dollars);
 - Our investments in enterprise software companies (Microsoft of the US and SAP of Germany) and our Chinese platform technology companies (Alibaba and Tencent) are likely to be resilient in this environment. These investments represent 35% of our portfolio;
- We have 18% of the portfolio in two technology investments with more cyclical exposure (Alphabet and Facebook). While economic activity and advertising will decline, we think this downturn could prove an accelerant to their business models. These companies are additionally well positioned to weather the downturn due to their financial strength;
- We have 7% of the portfolio in a leading payment platform (Visa). While demand will be hit by the economic downturn, we consider Visa to possess strong long-term prospects and well positioned to weather the downturn due to its financial strength;
- We have 6% of the portfolio in a luxury company (Estée Lauder). The demand for this company's products is inherently more discretionary in nature and the blow to its businesses will depend upon the depth of the economic downturn. We note that Estée Lauder owns some of the world's strongest brands, retains a solid balance sheet and benefits from sourcing about 33% of sales from Chinese consumers. We think China is one of the best-placed economies to recover from this situation;
- We have 6% of the portfolio in a quick-service restaurant company (Starbucks). This business faces a challenging situation during the next two to six months due to the social-distancing measures being implemented around the world. We note that their drive-throughs and delivery remain open in many markets. Post the health crisis, we believe Starbucks should recover strongly and will likely prove to be resilient to an economic downturn;
- We have reduced the currency hedge to around 26% of the portfolio.

We are monitoring the strength of the balance sheet of each company in our portfolio and, in particular, the ability of our companies to withstand an extended economic slump. However, none of the businesses in the portfolio currently have meaningful financial leverage.

Importantly, our High Conviction portfolio holds no investments across industries that are the most vulnerable to this crisis. The portfolio does not hold any banks, energy companies, airlines, travel-related companies or property trusts. The portfolio has no direct exposure to emerging markets, other than China. We estimate our indirect exposure to emerging markets, excluding China, represents 9% of the portfolio.

This is a complex, fast-moving and unprecedented situation and we will continue to manage the portfolio to protect capital of investors. As Warren Buffett has said: "To finish first, you must first finish."

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