Magellan Global Trust Portfolio Update

As you are aware, the COVID-19 virus is a fast-moving and fluid situation. The most likely outcome of the efforts to contain this health emergency is a near total shutdown of the world's economy over the next two to six months. This is likely to lead to a near total collapse in demand for many (but not all) businesses over this period. For some, this could prove fatal, particularly for small businesses and for businesses that have high financial leverage or high fixed costs. Only governments can prevent these businesses from failing. The potential financial and social consequences are very concerning.

The shape of the economic recovery will depend upon the scale, timeliness and effectiveness of actions taken by governments and central banks to help businesses to survive and keep people employed over the next two to six months.

The outcomes range from a V- or U-shaped recovery, a prolonged and deep recession and, at the pessimistic end of the scale, to a depression. We are unable to assess the most likely outcome at this stage as we don't have visibility on the scale and effectiveness of the possible fiscal and monetary responses that governments and central banks might enact. These responses are being formulated as events unfold. The good news is that governments around the world have realised the potential severity of this situation and have the best minds working around the clock to formulate responses.

The likely size of the fiscal response required to head off the worst outcomes is unprecedented and potentially could be up to 20% to 30% of GDP. Unfortunately, there will be some countries (particularly some emerging markets) that might be unable to respond with sufficient force. Fortunately, major countries such as Australia, Canada, China, France, Germany, Japan, the UK, and the US are in strong positions to respond to this crisis. We hope that politicians and central banks will act in time and with sufficient force to prevent a devastating economic collapse. We are assessing their efforts as they announce them.

Over the past week, we have taken steps to increase the defensiveness of the Magellan Global Trust portfolio and have increased cash in the strategy from about 3% to about 15%. All cash is held in US dollars.

We believe the Magellan Global Trust portfolio is well positioned to weather this situation.

Our portfolio has numerous advantages. These include:

- Cash at about 15% (held in US dollars).
- Meaningful investments in businesses that are likely to prove resilient in this environment such as the four US utilities (Atmos Energy, Eversource Energy, Xcel Energy and WEC Energy), the US-based telecom-infrastructure company Crown Castle International, two consumer staples (Nestlé and RB) and the Swiss-based pharmaceutical company Novartis International.
- Most of our major technology investments are likely to be resilient in this environment (including Microsoft, and China's Alibaba and Tencent).
- Our technology investments with more cyclical exposure (Alphabet and Facebook) are very well positioned to weather any downturn due to their financial strength and are likely to participate strongly in any recovery. Visa and Mastercard are similarly positioned.
- Our luxury holdings (Estée Lauder of the US and LVMH of France) own some of the world's strongest brands, have solid balance sheets and benefit from sourcing about one third of sales from Chinese consumers. We think China is one of the best-placed economies to recover from this situation, which will also benefit Alibaba and Tencent.

- Our three restaurant companies (McDonalds, Starbucks and Yum! Brands) face a challenging demand situation over the next two to six months as the world shuts down. Post this slump in demand, however, these businesses should recover strongly and prove defensive in the face of an economic downturn. Needless to say, we are monitoring these investments closely given the unusual nature of this situation, which will severely impact their businesses over the next two to six months. We remain of the view that these are some of the best businesses in the world and they are likely to rebound when the virus passes. We note that each of them has a strong drive-through business that is likely to remain open.
- Our portfolio holds few or 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. Our indirect exposure to other emerging countries is modest. We have exited our position in American Express.
- The currency hedge has been reduced to provide additional resilience against deteriorating economic condition.

This is a complex, fast-moving and unprecedented situation and we will continue to manage the portfolio to protect the capital of investors. We believe the portfolio is well positioned to do this.

We will keep you informed as the situation evolves.

Stay safe and best wishes,

Hamish Douglass
Chairman and Chief Investment Officer

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