Fund Update: 31 December 2022

# Magellan High Conviction Trust (Managed Fund)

ARSN: 634 789 754

Ticker: MHHT

## Trust Facts

| | | |
|---|---|---|
| Portfolio Managers | Nikki Thomas, CFA and Alan Pullen | |
| Structure | Global Equity Fund | |
| Inception Date | 11 October 2019 | |
| Management Fee[1] | 1.50% per annum | |
| Trust Size / NAV Price[2] | AUD $448.2 million / $1.2813 per unit[2] | |
| Distribution Frequency | Semi-annually | |
| Performance Fee[1] | 10% of the excess return of the units of the Trust above the Absolute Return performance hurdle (10% per annum). Additionally, the Performance Fees are subject to a high water mark. | |
| Tickers | **Solactive iNAV** | **ICE iNAV** |
| Bloomberg (MHHT AU Equity) | MHHTAUIV Index | MHHTIV Index |
| Refinitive (MHHT.AX) | MHHTAUDINAV=SOLA | MHHTAUiv.P |
| IRESS (MHHT.ASX) | MHHTAUDINAV.ETF | MHHT-AUINAV.NGIF |

[1]All fees are inclusive of the net effect of GST
[2]NAV per unit is cum distribution and includes a distribution of $0.0244 per unit distribution payable 18 January 2023.

## Trust Features

- Targets attractive risk-adjusted long-term compounding
- High quality, all-cap universe
- Deep, proprietary fundamental research
- 10-20 concentrated holdings
- 0-50% cash tolerance
- Active ETF with settlement via CHESS

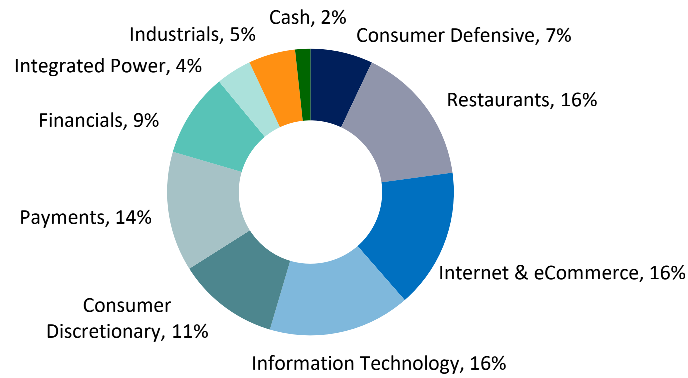
## Trust Performance^

| | Magellan High Conviction Trust (Managed Fund) (%) |
|---|---|
| 1 Month | -7.3 |
| 3 Months | 0.2 |
| 1 Year | -27.7 |
| 3 Years (p.a.) | -4.8 |
| Since Inception (p.a.) | -2.1 |

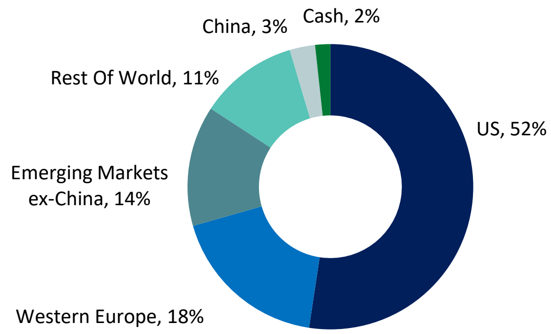
## Top 5 Holdings

| In alphabetical order | Sector# |
|---|---|
| Alphabet Inc | Internet & eCommerce |
| Intercontinental Exchange Inc | Financials |
| Microsoft Corporation | Information Technology |
| Visa Inc | Payments |
| Yum! Brands Inc | Restaurants |

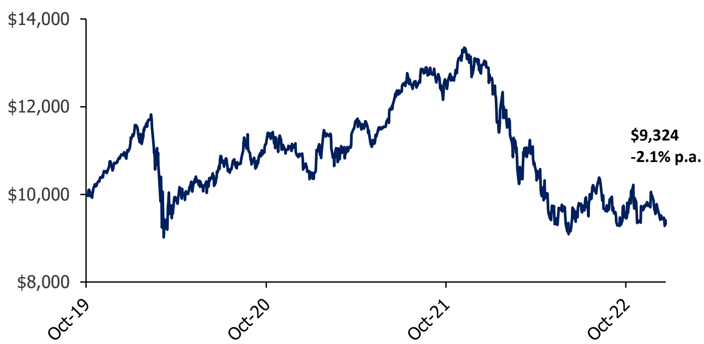
## Sector Exposure by Source of Revenue#




## Geographical Exposure by Source of Revenue#




## Performance Chart growth of AUD $10,000^




# 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 add to 100% due to rounding.
^ 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). Trust Inception 11 October 2019. Returns denoted in AUD.

## Market Commentary

The final quarter of 2022 saw a rally in equity markets with the Morgan Stanley Capital International World Index up 9.8% in US dollars. We note in Australian dollars, the index rose 4.1% as the Australian currency rose. The US dollar's strength notable for most of the year fell away in the quarter, as did the dominance of US markets. During the quarter, sector performance was disparate with six of the eleven industry sectors rising double digits in US-dollar terms and two sectors falling. Gains were led by Energy (+17.1%), Industrials (+14.1%) and Materials (+13.1%) while falls occurred in Consumer Discretionary (-4.8%) (a sector dominated by Amazon) and Communication Services (-1.15%). Real estate was next lowest at +3.94%.

In the US, the S&P 500 Index rose 7.1% even as the Federal Reserve raised the cash rate by 125bp to 4.25%-4.5% and maintained it would keep interest rates higher for longer through 2023. Politically, we saw the mid-term elections, which saw the Republicans win back control of the House of Representatives, ending control of Congress by President Joe Biden's Democratic Party.

The Euro Stoxx 50 Index closed out the quarter strongly (+14.3%) despite the European Central Bank also raising interest rates aggressively and still high inflation. The milder European winter, a marked drop in demand by consumers and good levels of energy storage meant the concerns of a deep energy crisis were somewhat allayed.

But perhaps most importantly, things began to take an initially gradual and then accelerated shift for the better in China. While the CSI 300 closed the quarter up just 1.8%, we saw a widespread shift that reduced the economic risks in China, a positive development for investors. After a spate of riots internally, Chinese policy towards its zero-Covid stance began to ease and has since rapidly unwound. As we write, borders have opened a good three months ahead of most people's expectations. We would caution though on being too sanguine as the long-term issues will not be easily or quickly resolved and the distancing of US-China relations is unlikely to turn fully.

## Fund Commentary

The Magellan High Conviction strategy rose slightly for the quarter. The biggest positive contributions came from the investments in Visa, Intercontinental Exchange and Yum! Brands. All three have shown persistent resilience through recent months and Visa and Yum! both benefit from the current high inflation environment. ICE is delivering strong results and benefiting from current market conditions while the prospective merger with Black Knight awaits regulatory approval. Booking Holdings and Safran also contributed strongly as the improving global travel trends continued.

The biggest detractor in local-currency terms in the quarter was the 25.9% fall in Amazon, as it has found itself on the wrong side of excess demand driven by pandemic stimulus and ultra-low interest rates that is now unwinding. This has seen sizeable cuts to expectations for both its retail and AWS businesses and implementation of major cost cutting and capex reductions to right size its operations. We believe Amazon will ultimately come out of this cycle stronger and better focused and will remain a leading player in its core exposures across cloud infrastructure, ecommerce and, increasingly, advertising. The other main detractors were Alphabet and Meta Platforms, for similar reasons to Amazon; overspend on costs and capex into material revenue slowdowns from stimulus-fueled strength. We exited Meta Platforms during the quarter as part of a general reposition to reduce correlated technology sector exposure and diversify our end market exposures.

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

## Outlook

After the extremes of 2022 where returns across almost all, if not all, asset classes fell, 2023 looks to be shaping up as a year of two halves. The runaway inflation is finally starting to slow down, especially in the goods part of the measure, with the key piece to watch from here being wages inflation. If (when) this can be reined in, central banks will start to respond by leaning back on their aggressive interest-rate hiking. Even still, we believe the three-decade-long fall in interest rates has ended and our world is adjusting.

We are now a long way through the adjustment process in markets. The benchmark US 10-year bond, used for discounting cash flows and thus crucial to determining valuations, is settling into a range in the high 3% at present. We think this looks sustainable and so while near-term volatility (associated with oscillations in this) is not off the table, the major repricing of duration is finished in our view. Elsewhere the tone of the Ukraine conflict also appears to have turned and while a compromise still lies ahead, it seems unlikely to create any further material new news to affect markets negatively. If anything, some sort of stalemate or solution would likely be positive.

The other major news in late 2022 was the change of tone and direction in China. We expect this will be the scene setter for 2023 and we will finally put Covid-related disruption in the rear view mirror during the 2023 year. China has moved swiftly since first wavering on its strict zero-Covid policy and, given the lack of truly effective vaccines, seems now to be pursuing a 'herd immunity' response. The implications of this are, in our view, widespread and potentially materially positive for world markets. China is stimulating to rebuild domestic growth and confidence. It has eased aggressive regulatory constraints on the technology and other sectors with the recent capital raising by Ant Financial and Jack Ma ceding control all evidencing that shifts are underway. Stimulus in China flows out, especially to Europe. The opening of China's borders will allow the free distribution of the significant and well-educated Chinese population, potentially a material factor in addressing the labour shortages that have plagued many economies and held up wages.

These things will take time to flow through and the near-term risk of the shift is a flare-up of Covid symptoms globally and the initial wave of pain inside China that may hurt growth statistics. Further, the aggressive actions by western central banks have shown lags in taking effect and the slowing, especially in the US, could be material. Parts of the economy built up unsustainably high cost structures as excesses of stimulus drove extraordinary revenue growth; unwinding these costs takes time. So we expect margin pressures in parts of the US lie ahead and it will be important to anticipate where earnings expectations are inappropriate as we traverse this first part of the year.

We continue to work hard to position for strong future performance by selecting compelling uncorrelated exposures via companies that not only have strong competitive advantages but which we believe can also deliver resilient cash flows and exciting growth. We believe the portfolio can deliver our clients strong double-digit returns over coming years, even if broader indices fall further in the short term, as we continue to hold strong, well-capitalised and advantaged companies that we believe can benefit from the changing shape of economies and industries. We thank you for the trust you place in us.