Magellan Global Fund (Closed Class)

TICKER: MGF | ARSN: 126 366 961

MAGELLAN ASSET MANAGEMENT

AS AT 30 JUNE 2024

PORTFOLIO MANAGERS	NIKKI THOMAS, CFA AND ARVID STREIMANN, CFA

INVESTMENT PHILOSOPHY

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

OBJECTIVES

To achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.

Aims to deliver 9% p.a. net of fees over the economic cycle.

PORTFOLIO CONSTRUCTION

A relatively concentrated portfolio of 20-40 high quality securities constructed with strict risk discipline and macroeconomic insight seeking to achieve strong risk-adjusted, not benchmark-relative returns.

Cash and cash equivalents exposure between 0 - 20%.

MAGELLAN GLOBAL FUND (CLOSED CLASS): KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	NAV PER UNIT#	MANAGEMENT AND PERFORMANCE FEES[1]	INCEPTION DATE
MGF	AUD $3,433.0 million	$2.2722 per unit	1.35% p.a. and performance fee of 10% of dual hurdle excess return^	30 November 2020

^ 10.0% of the excess return of the Closed Class units of the fund above the higher of the Index Relative Hurdle (MSCI World NTR Index (AUD)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.
# NAV price is cum distribution and therefore includes the distribution of $0.0366 per unit payable on 19 July 2024.

CLOSING MARKET PRICE	VALUE OF UNITS BOUGHT BACK SINCE INCEPTION[2]	% UNITS BOUGHT BACK SINCE INCEPTION	DISTRIBUTION YIELD[3]
$2.260 per unit	$531.4 million	26.1%	3.3%

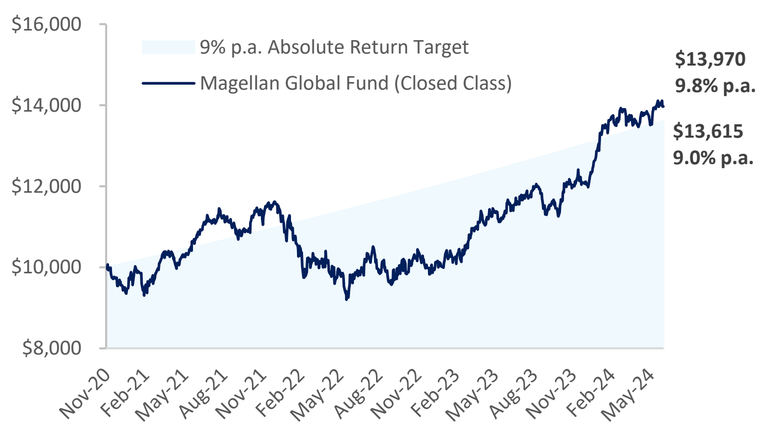
PERFORMANCE[4]

	1 MONTH (%)	3 MONTHS (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
MGF	2.9	0.5	15.4	19.7	9.1	9.8
MSCI World NTR Index (AUD)*	1.6	0.3	14.2	19.8	11.1	13.7
Excess	1.3	0.2	1.2	-0.1	-2.0	-3.9

CALENDAR YEAR RETURNS	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (% part year)
MGF	15.4	23.0	-14.8	19.8	-3.6
MSCI World NTR Index (AUD)*	14.2	23.0	-12.2	29.3	-0.8
Excess	1.2	0.0	-2.6	-9.5	-2.8

Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD $10,000[4]



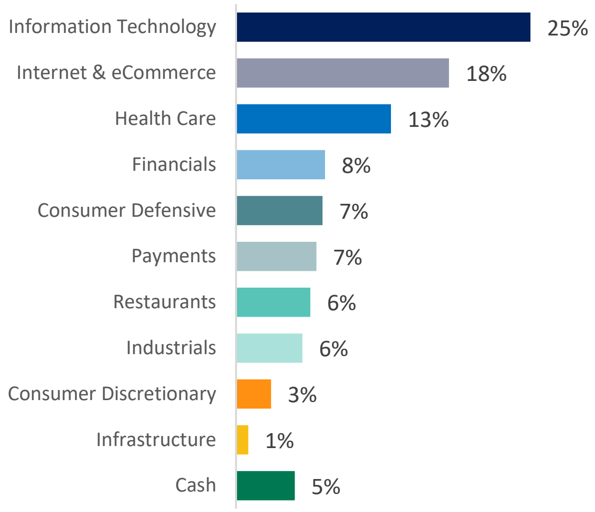
Past performance is not a reliable indicator of future performance.

[1] Transaction costs may also apply. All fees are inclusive of the net effect of GST.
[2] The Fund has been exercising its ability to buy back units on market since 11 January 2021.
[3] Distribution Yield calculated by applying the aggregate distribution per unit paid over 12 months to 31 December 2023 against the closing market price as at 31 December 2023.
[4] Calculations are based on NAV prices with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.
*MSCI World Net Total Return Index (AUD). All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in www.magellangroup.com.au/funds/benchmark-information/

TOP 10 HOLDINGS

STOCK	SECTOR[5]	%
Microsoft Corporation	Information Technology	7.2
Amazon.com Inc	Internet & eCommerce	7.1
SAP SE	Information Technology	5.1
Intercontinental Exchange Inc	Financials	4.7
ASML Holding NV	Information Technology	4.5
UnitedHealth Group Inc	Health Care	4.3
Apple Inc	Information Technology	4.3
Meta Platforms Inc	Internet & eCommerce	4.1
Netflix Inc	Internet & eCommerce	4.0
Intuit Inc	Information Technology	4.0
	TOTAL:	49.3

SECTOR EXPOSURE BY SOURCE OF REVENUE[5]

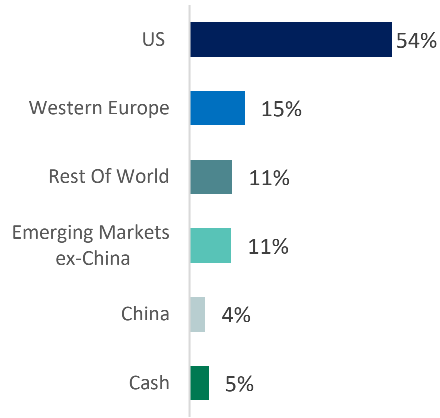


TOP CONTRIBUTORS/DETRACTORS 1 YEAR[6]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Amazon.com Inc	3.0
Microsoft Corporation	2.3
SAP SE	2.0

TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
LVMH Moet Hennessy Louis Vuitton	-0.7
AIA Group Ltd	-0.6
Nestlé SA	-0.5

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[5]



[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.

Market Commentary

3 months

During the June quarter the MSCI World Index gained 2.6% in USD and 0.3% in AUD. Markets globally diverged with returns being driven by two distinct themes: 1) central banks and governments balancing a slowing of inflation with economic data prints and gauging the right level for interest rates, and 2) continued optimism around the building of infrastructure (chips, data centres) for Generative Artificial Intelligence. Companies that are well positioned to benefit from these new growth opportunities performed well while companies more at risk if demand growth slows too much were weaker. Consequentially, Information Technology (+11.4%) and Communication Services (+8.1%) were by far the strongest sectors in the June quarter, while economic sensitives gave back some of the first quarter gains, with Materials (-3.5%), Consumer Discretionary (-2.3%), Industrials (-2.2%), Energy (-1.3%) and Financials (-0.4%) all lower.

The huge investments, an arms race, to build capacity and capability in Artificial Intelligence rolled on this quarter and share prices followed. US markets were strongest regionally, given it is the home to most major technology companies, with the Nasdaq Composite up 8.3%, followed by the S&P 500 index up 3.9%. Decoupling trends further accelerated as US imposed tariffs on China's electric vehicles and further limited China's access to semi-conductor-related equipment. The US election in November 2024 is filling much column space, but we do not see many areas of truly material policy differences. Most, including us, see Trump's more likely policies as broadly more positive for US corporates and thus equity investors.

After a 20% gain in the March quarter, Japan's Nikkei 225 index dipped 2% in the June quarter. In March the Bank of Japan raised rates from –0.1% to a range of 0.0%-0.1%, the first rise in 17 years and its first move out of negative rates in eight years. It hopes to protect the Yen from further devaluation and cool its above-target 2.8% inflation. Unions have successfully been bargaining for higher wages.

Europe's Euro Stoxx 600 index was broadly flat in the quarter, down by 0.2%. President Macron called a snap election in France, causing a sharp sell-off in French bonds and stocks on concerns of a right-wing government gaining control. Europe's recovery is in its early stages with the euro area and UK growth turning positive and disinflation bringing inflation to 2.5% in the EU and 2% in the UK – good news for policy makers. Indeed, the ECB cut its policy rate by 25bp in June. The EU and UK unemployment rates were 6% and 4.4% respectively in May 2024. The German 10-year Bunds rose to 2.5% from lows of just under 2% in December 2023.

Australia's ASX 200 was down 1.1%.

In China the CSI 300 index fell 3.3% as policy support remained modest. Economic activity was led by improving exports while the consumer remains very cautious, preferring to save rather than spend. May data showed retail sales rose 3.7% yoy, exports rose 7.6% yoy and the USD–CNY remains above 7.2. The Third Plenum begins on July 15 where China's government lays out its long-term growth target.

12 months

The MSCI World Index rose strongly this past year, by 20.2% in USD and 19.8% in AUD, fuelled by the significant investments being made to unlock the productivity and growth opportunities that will be enabled by AI and Generative Artificial Intelligence. At the same time, economic growth has held up well, particularly in the US, despite tight monetary policy around the world to bring inflation back down to acceptable levels of closer to 2%. This reflected an improving outlook in many cyclical sectors as both fiscal policy and strong corporate spending have driven growth.

All sectors rose in local currency terms, with Information Technology (+38.8%) and Communication Services (+38.2%) clear beneficiaries of the strengthening growth anticipated from AI, followed by Financials (+25.0%), Industrials (+17.7%) and Energy (+16.4%) revealing the expectations of cyclical recovery. The weakest sectors were Consumer Staples (+2.8%) and Utilities (+5.7%).

The S&P 500 index (USD) added 22.7% and the Nasdaq gained 28.9% in the year to end June 2024. The top five S&P 500 stocks are Microsoft, Apple, Nvidia, Alphabet and Amazon and the impressive performance has rested largely on these stocks. All are important players in driving technological innovation. The Federal Reserve has kept rates at 5.5% in seven consecutive meetings, with the last 25 basis points hike in July 2023. The consumer price index measured inflation at 3.3% in the 12 months to May – down from 4.1% a year earlier – while the Core PCE, (which the Fed focuses on) resumed slowing in May (after three stable months at 2.8%) hitting 2.6%. The 10-year US Treasury yield finished the year at 4.4%.

Europe's Euro Stoxx 600 index (EUR) rose 10.7% for the year. After weakening up to October 2023, markets turned as it became clearer that disinflation was taking hold and the growth slowdown would not become a significant economic downturn. Food and energy prices, which had been particularly painful for Europeans, fell back quickly while household wealth is improving modestly. Household disposable incomes are rising at ~5.8% with employee compensation rising at a similar rate. European Union and China trade relations became increasingly difficult over the past year, and this could have profound impacts on multinationals operating across both jurisdictions. Tariffs on Chinese EVs and other measures seem likely as the EU tries to derisk its economy and supply chains.

Japanese shares had another strong year, as the Nikkei 225 index advanced 19.3% in Yen (7% in USD). The Japanese share market has benefited from improved corporate governance, a weak Yen benefiting exporters (such as its car industry) and changes in regulations on investment accounts that have also boosted share purchases. In March 2023, the Tokyo Stock Exchange (TSE) requested companies to take "action to implement management that is conscious of the cost of capital and stock price". The evidence of changes is increasingly widespread and has been a material factor in boosting shareholder returns in Japan.

China's CSI 300 index fell 9.9% over the year, though has been closer to flat in the past six months. China's growth outlook has stabilised as exports are picking up to fill the gap being left by weak domestic consumption.

This is tied to poor consumer confidence, as much household wealth remains tied to real estate where prices continue to fall as the market digests oversupply.

Australia's ASX 200 index (AUD) ended the year up 12.1% after a strong first half with a relatively stable currency at around 66c. Australia's economic growth has remained positive but weak, while population growth is strong (up 2.5% as last measured in December 2023 principally due to net migration) and inflation is easing, slowly. Unemployment is low and labour markets tight, so wage inflation is holding at around 4%.

Fund Commentary

3 months

The portfolio recorded a positive return for the quarter to June 2024. The stocks that contributed the most in local currency terms over the period were Apple, Alphabet, Amazon, Microsoft and Netflix. Apple and Alphabet both rallied over 20% as the market gained greater clarity on the prospects for both to capture strong future growth, especially related to the implementation of Generative Artificial Intelligence. At the June Worldwide Developer Conference (WWDC) Apple showcased "Apple Intelligence'", which will be available only on iPhone 15 and later models, thereby likely driving a faster replacement cycle. Alphabet is continuing to innovate and experiment in Search while also reducing costs and improving profits in Cloud. Amazon and Microsoft are superbly positioned as the two dominant cloud providers and growth is gradually reaccelerating while Netflix continues to reveal progress on capturing consumers and delivering a strong ad-supported model.

The stocks that detracted the most in local currency terms in the quarter were Mastercard and Visa, Lowe's and LVMH. The US Supreme Court, in one of several surprising moves of late, rejected a settlement of a 2005 anti-trust lawsuit against the two payment networks relating to interchange fees (which are received by banks not the card issuers) and this has unnerved investors. We do not anticipate changes to the "Honour All Cards" rule and so do not see a material financial impact as likely. Risks for deteriorating discretionary spend – given tight monetary policy and lack of change in interest rates – saw LVMH and Lowe's share prices retrace ~13% each, with the weak Chinese consumer in focus for LVMH. Lowe's is delivering good results in a period of weak spending on housing-related items (even given low housing turnover) but is being held back by sustained high interest rates. We anticipate this will improve when the US Federal Reserve does cut rates. Housing supply remains below natural demand in the US.

12 months

The portfolio achieved an almost 20% return over the past year to end June 2024. The largest absolute contributors were the holdings in Amazon, Microsoft, SAP, Trane Technologies and Chipotle Mexican Grill, which all rose strongly, led by Trane at 74% and tailed by Microsoft at 32%. Almost all of these have benefited from compelling outlooks associated with reaccelerating growth in Cloud, with AI adding fuel to the long-term opportunity apparent for each. Trane is seeing robust demand for its products as net zero targets and rising regulations regarding emissions drive investment. Its backlogs are at record levels. Chipotle Mexican Grill is winning share in US eating out occasions as it continues to grow restaurants at over 8% pa, while its healthier menu and still compelling relative value win over customers.

The largest detractors in the quarter were AIA (1299 HK), LVMH, Nestlé and Diageo. We reduced our holding in then exited AIA in the final quarter. While AIA 2023 results were solid and the business continues to execute well, managing to a conservative balance sheet, the outlook failed to meet expectations and we are wary of the prospects for its large China/ HK exposure given the weakness amongst consumers. LVMH has fallen as the business is now cycling a period of exceptional growth at the same time consumers are tightening their belts and the important luxury Chinese shopper is focusing on saving. We believe wealthy consumers globally remain in rude financial health but do expect a period of slower growth. We exited Diageo in January 2024, after disappointing results in Latin America and our reassessment of how much longer it would take to bring spirits consumption in the US back to trend from extremely elevated levels. Nestlé has had some struggles within its business, while also being less aggressive with price increases to pass through cost inflation, but we expect these issues will abate later this year.

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

Portfolio Positioning

Over the past year we have repositioned the portfolio to reduce our exposure to Consumer Staples where we expected revenue growth to be pressured by the roll back of aggressive pricing and where management teams were not executing well. These were our holdings in Diageo, Reckitt Benckiser and PepsiCo. We added Colgate-Palmolive as our analysis suggested the worst was behind it and the coming few years should see the company recover margins with steady market share gains in key markets. Elsewhere we halved our Utilities exposure as real rates remained a headwind and regulatory risks became greater, and switched our holding in WEC Energy into Eversource Energy given greater valuation dislocation and prospects for better outcomes as it repositions and exits poorly performing assets. In Healthcare we added Styker and Novo Nordisk, both of which we view as executing superbly and having strong growth prospects given innovation by each. We sold Novartis, as, with the sale of Sandoz, the science risk is now less diversified, and we felt growth opportunities were stronger elsewhere.

We exited our small Safran holding and added Republic Services – we like the long-term prospects for both companies but Republic is a lower beta exposure and the change helps us balance risk in the portfolio.

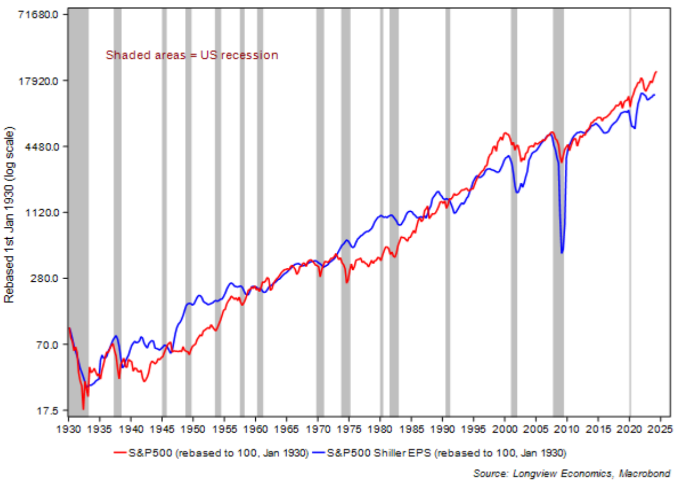
Given concerns on the prospects for Chinese domestic consumption and our expectation of sustained high policy rates in the US, which we felt would weigh on US discretionary expenditure more than the market anticipated, we reduced our holdings in LVMH, McDonald's, Yum! Brands, Chipotle and Visa. We added to Netflix, Amazon, Microsoft, SAP and Intercontinental Exchange when we felt the pricing gave us an opportunity to achieve significant long-term returns. We allowed the strong outperformance of Trane Technologies to run so its position size increased from 2.4% to 3.5% across the year.

Outlook

As we look to the years ahead, we see a good backdrop for global equities and for the portfolio of companies we hold. In conclusion, we see the interest rate backdrop as reasonably benign and potentially a positive, earnings outlooks as positive for investors, and no evidence at present of rising geopolitical or financial shocks that would drive a need to be on alert.

Growth in earnings

Over the very long term the stock market is all about earnings growth. That is, over the very long term the multiple placed on expected earnings growth will wax and wane around average levels. Earnings are the driving force of the stock market.



US S&P 500 & EPS (rebased to 100 in Jan 1930, log scale)

Over shorter horizons, the multiple placed on a company's earnings or cash flows will significantly influence returns. Barring short-term pullbacks of ~5-10%, markets tend to trend higher along with earnings, except in a cyclical bear market. Causes of these bear markets are usually one or a combination of three factors: a recession, tight money, or a shock (such as an oil price shock or banking crisis). We see none of these as likely in the coming year (though shocks are called shocks because we do not foresee them!)

Interest rates

We continue to expect US 10-year Treasuries to trade within a 50bp range either side of 4% and to stay similarly flattish in Europe with the balance of risks for these yields tending to the downside. Policy (cash) rates, in most major developed economies, should begin or continue to be cut as inflation slows. Elsewhere Japan has finally moved its cash rates above zero to 0.1%.

Growth in economies

European consumers should sustain some improvement ahead though productivity in Europe remains low – always a headwind to performance. The US consumer is showing signs of weariness, especially at the lower end of incomes, though with equities and housing prices still up comfortably year over year, household wealth is up 9% and overall spending should be ok. Fiscal policy in the US was a big driver of economic growth in calendar year 2023 but this is no longer a driver. Investments in technology and supporting industries look likely to sustain a solid, if slightly slower, US economic growth path with nominal US GDP growth currently above 5%. Any material slowing is likely to be met with Fed policy rate cuts and we do not anticipate a recession any time soon. China has retained a 5% GDP growth goal though this may be revised in July at the Third Plenum. With weak housing, low inflation, an ageing population, low consumption expenditure and recent deterioration in industrial production, exports growth will be critical. China's large investments in value-added manufacturing have resulted in significant capacity and cost-competitiveness so more protectionist policies elsewhere, like tariffs, seem likely. The issue of Taiwan and its independence from China remains unresolved and potential for flare-ups is high.

Sovereign debt

Government deficits are apparent in most countries around the world today and are often raised with us as a point of concern. Concerns on the levels of public debt have, at times, led to a sharp repricing of debt and equities. Elections that shift governments to parties more likely to spend recklessly bring short-term event risk; e.g., Liz Truss's UK government and the current concerns over Le Pen's showing in France. In the US, neither party seems particularly worried about budget deficits and government debt to GDP is currently around 124%. For context, the ratio is 262% in Japan, ~30% in Australia and ~80% in Europe's EU and in China. We do not see the primary deficit in the US as sufficient to cause risk premiums to blow out for now – solving this issue will require a period of strong economic growth or tax rate increases down the road.

The next leap forward

The advances in AI and Gen AI are not yet apparent in the revenues or earnings of ~95% of companies and for now, the ramifications are really only showing up in huge capital spending on semiconductor chips and data centres to enable AI use. However, innovation is evident and the potential for meaningful change in time is likely to be unlocked as companies and governments invest to capture the opportunity and protect the value of unique data. We own meaningful stakes in the companies we believe can lead in the digitalisation shift including AI and deliver market-leading growth and returns.

Source: Magellan Asset Management Ltd, Magellan Global Fund (Open Class) holdings as at 30 June 2024.

We anticipate our portfolio companies can keep delivering better-than-expected results over time and are yielding high and growing cash flows from their operations today. Innovation alongside execution excellence is at the heart of the companies we own as we believe these factors position them to succeed and outgrow their respective industries.