Magellan High Conviction Trust - Active ETF

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

MAGELLAN ASSET MANAGEMENT

AS AT 30 JUNE 2025

PORTFOLIO MANAGER NIKKI THOMAS, CFA

INVESTMENT OBJECTIVE AND PHILOSOPHY

Objective: To achieve attractive risk-adjusted returns over the medium to long-term.

Aims to deliver 10% per annum net of fees over the economic cycle.

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 - 15%.

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, returns are not guaranteed and there is a risk that investors may lose money on any investment they make. The Fund's Product Disclosure Statement (**PDS**) sets out the significant risks relevant to the Fund. You can view the PDS at www.magellangroup.com.au.

MAGELLAN HIGH CONVICTION TRUST - ACTIVE ETF: KEY PORTFOLIO INFORMATION

TICKER	TRUST SIZE	BUY/SELL SPREAD[1]	MANAGEMENT AND PERFORMANCE FEES[2]	INCEPTION DATE
MHHT	AUD $449.5 million	0.12% / 0.12%	1.50% p.a. and performance fee of 10% of excess return^	11 October 2019

^ 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.

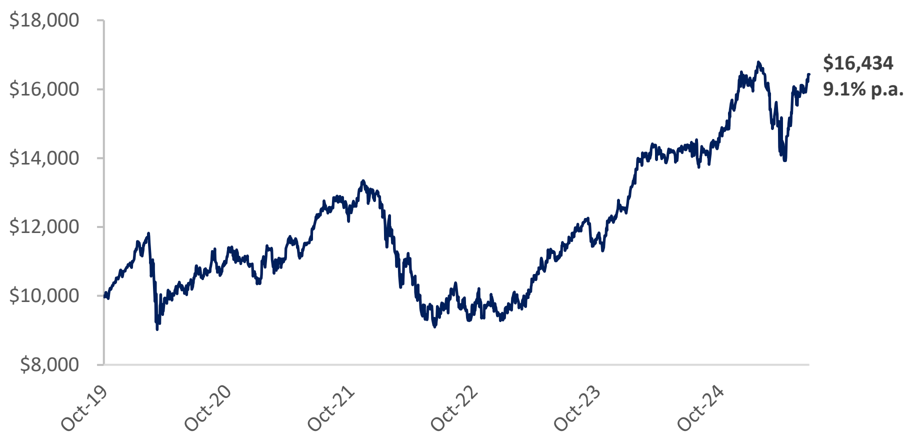
PERFORMANCE[3]

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	Since Inception (% p.a.)
MHHT	3.7	9.5	15.4	20.6	9.7	9.1

CALENDAR YEAR RETURNS	CYTD (%)	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (part year)
MHHT	2.1	28.3	34.6	-27.7	21.2	-1.6	8.2

Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD $10,000[3]



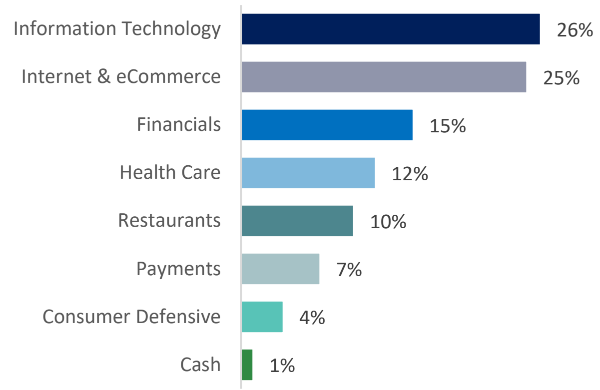
Past performance is not a reliable indicator of future performance.

TRUST CHARACTERISTICS[4]

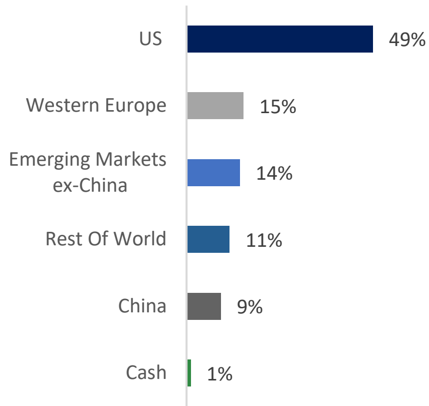
3-YEAR	AVERAGE	HIGH	LOW
Cash Weight	2.8%	16.0%	1.1%
Number of Stocks	16	20	10
Hedging Weight	1.6%	10.3%	0.0%

[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 REVENUE[5]



GEOGRAPHIC EXPOSURE BY SOURCE OF REVENUE[5]



TOP CONTRIBUTORS/DETRACTORS 1 YEAR[6]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Brookfield Corporation	3.1
Meta Platforms Inc	2.8
Visa Inc	2.5
TOP 3 DETRACTORS	**CONTRIBUTION TO RETURN (%)**
Novo Nordisk ADR	-2.5
ASML Holding NV	-2.0
Yum China Holdings Inc	-1.0

TOP 5 HOLDINGS (ALPHABETICAL ORDER)

STOCK	SECTOR[5]
Amazon.com Inc	Internet & eCommerce
Meta Platforms Inc	Internet & eCommerce
Microsoft Corporation	Information Technology
Taiwan Semiconductor - SP ADR	Information Technology
Visa Inc	Payments

[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 trust's gross return for the period in AUD. Excludes non-disclosed positions established in the latest quarter.

Market Commentary

The June 2025 quarter kept investors on their toes. Geopolitical, government and monetary policy news meant a period of angst, with heightened uncertainty that led to dramatic moves in equity prices. This ultimately gave way to a quarter of good returns as the MSCI World Index gained 11.5% in USD (6% in AUD as the USD fell). Regionally, performances varied with US strength re-emerging (the S&P 500 rose 10.8%, the Nasdaq Composite rose 17.9%) while the Euro Stoxx 600 and China's CSI 300 rose only 2.8% and 2.3% respectively (though fun to note Europe was up ~10% when measured in USD). Japan's Nikkei 225 gained 13.8%, Emerging Markets (USD) gained 12% and Australia's S&P/ASX 200 delivered a commendable 9.5% gain.

Early in April the US Administration announced a new 10% universal tariff and reciprocal tariffs of up to 50%, with effect from 5 April and 9 April respectively. While tariffs were expected, the scale was not. China retaliated and the situation spiralled with markets diving and the US touching a 20% decline. Implementations were then paused and the China/US positioning de-escalated further during May. June saw some positive news on negotiations between the US and multiple countries alongside an engagement by the US in the Israel/Iran war, bombing Iranian nuclear facilities that led to a ceasefire. Implementation of stricter immigration policies in the US materially slowed the number of people entering the US for work and led to some social unrest. Tariff implementation looks likely to bring US tariffs to around 15% from below 2%, raising revenues that will help balance the higher US deficits resulting from the mega tax and spending bill, costed at an estimated $3.4Tr (over 10 years). US 10-year bond yields ended the quarter at 4.23% virtually unchanged after peaking at 4.6% in mid-May and seeing liquidity-amplified volatility in April when US fiscal sustainability concerns peaked.

Slowing inflation gave way to more interest rate cuts by the ECB, Bank of Canada, UK's BOE, Australia's RBA and some emerging market central banks, while the Federal Reserve kept rates unchanged as it watched data on growth and inflation to assess the impacts of new government policies. Despite global headwinds, India's economic growth was strong (~7% real/10% nominal) while China's has stabilised around 5% (real and nominal) as it manages deflation, property sector weakness and the implications of tariffs on its exports with supportive policy tools.

Technology stocks regained leadership with MSCI sectors of IT and Communication Services (dominated by the likes of Meta, Alphabet and Netflix) up 22.5% and 18.1%, followed by the more economically sensitive sectors of Industrials up 11.9%, Consumer Discretionary up 8.9% and Financials up 7.1%. Energy and Healthcare lagged at down 7.1% and 6.1% respectively and Consumer Staples rose just 0.8%.

Fund Commentary

The portfolio rose strongly in the June quarter. The smaller position in Booking was exited after an excellent period of performance (+158% in AUD terms since purchase) and Yum China was added to the portfolio. Alphabet was trimmed and TSMC was increased. Five of the top six holdings led contributions; in order, Microsoft (share price move of +33%), Mercado Libre (+34%), Meta (+28%), Taiwan Semiconductor (TSMC) (+36%) and Amazon (+15.3%). Detractors in the quarter were smaller positions of Yum China (-13.9%) and EssilorLuxottica (-10.8%), which together detracted 1.4ppts but longer term should deliver exceptional growth, high cash flow returns with clear diversification benefits, and idiosyncratic risk/return characteristics.

Microsoft delivered a reacceleration in Azure to 35% revenue growth and remains in an outstanding position to monetise the AI transformation of workplaces via CoPilot, Azure and other enterprise solutions; and then there is the indirect exposure to OpenAI and ChatGPT's success. Mercado Libre's results in April saw expectations for the growth of its leading fintech and ecommerce platforms rise, and we believe it is making ongoing strategically sound investments into logistics, advertising, loyalty and fintech to fuel growth. A gradual leadership transition of the current CEO and founder was also put in place; its strong management bench is secure in our view. Meta's share price rebounded after a down March quarter, delivering 1Q25 revenue growth of 16% on strong ad spending and 27% operating profit growth with tight cost control. It is spending aggressively on AI and the pursuit of superintelligence, including buying Scale AI and adding top AI talent, while finding additional ways to monetise its billions of users. TSMC's strength followed a very good 1Q25 result (revenues rose 42%, gross margin was 58.8% and 3nm made up 22% of revenues), the pause on tariffs and a June AGM that emphasised advancement in humanoid robots and AI, with global companies and governments seeking out TSMC for AI projects. Amazon rallied after a better-than-expected 1Q25 result and we believe it is relatively better placed to navigate the new tariff environment than most.

Yum China is the Chinese franchisee of Yum Brands, opening 1,600-1,800 new stores each year (over 10% p.a.) is on the path to 20,000 KFC, Pizza Hut and other restaurants. It generates two- to three-year cash paybacks on this capital and thus has significant free cash flow, which it is using to undertake buybacks. Disappointingly, the US/China tariff tit-for-tat saw many such stocks sell off sharply and it is slowly recovering. With double-digit EPS growth in coming years supported by Chinese consumer confidence recovering out of a trough, the shares look very attractively priced. EssilorLuxottica (EL) is the global leader in eyewear, combining vision care innovation with iconic fashion brands like Ray-Ban and Oakley, and retail brands including LensCrafters and Sunglass Hut. In April it reported good 1Q25 sales up 7.3% ex-FX while noting potential tariff headwinds due to product imports to the US from China, which will require it to raise some prices. Recent Euro strength is being reflected in lowered consensus estimates for its reported profits. In our view the long-term investment case is supported by strong growth from its innovations and acquired businesses, most notably the production capacity expansion for Meta Ray-Bans and newly released Oakley AI glasses, as well as myopia management and the Nuance audio launch. Good pricing power should mitigate tariffs, overcoming near-term weakness. In June EL was included in *Time* magazine's list of top innovators.

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

Outlook

There are significant numbers of policy changes by governments around the world, influencing outlooks for companies more than typically. Some areas that bear monitoring include tariffs by the US, which remain undecided and vulnerable to sudden changes by the US President; healthcare policy changes under RF Kennedy as US Secretary of Health and Human Services; revised US immigration policies (which are both removing people from the US but also dissuading many from applying to move to the US); and the potential loosening of financial market regulation, as well as policies to support onshoring, defence and infrastructure spending in the US and Europe. All of these will not just affect the US economy and market, but will have spillovers to global economies, currencies and interest rates.

The tariffs are making it difficult for the Federal Reserve to make further interest rate cuts given the unknown impacts. Tariffs will be inflationary (but by how much and for how long?) and will be a drag on growth, given they act as a tax on spending, so many investors believe rate cuts will be required before the close of calendar 2025. Market pricing is for one or two 25 basis point cuts in the US policy rate. However, with deportations and material loss of inbound immigration already evident, the US working age population looks set to shrink, a shift no-one had countenanced a year ago. The risk of rising unemployment is being offset by a shrinking of the labour force, thereby potentially staying the hand of the Federal Reserve. These countervailing factors will keep markets heavily focused on each new data point on the US economy, inflation and employment.

Final tariff rates are not yet determined but unquestionably will be materially higher than any past experience as the US Government will require tariff revenues to help balance the deficit costs from retained tax cuts and new net fiscal spending plans. Tariffs will be borne by exporters (outside the US), wholesalers, retailers and consumers, all to varying degrees depending on tariff rates, industry structures, pricing power and substitution effects, but the end impact will be a step up in US prices, probably becoming visible during 3Q. Putting aside this coming flow-through rise in US prices (inflation) from tariffs, inflation risks around the world are low, supporting favourable interest rate conditions for equities as businesses and consumers use debt to enhance capacity and/or returns prospects. If we do see any notable subsidence in long-term US interest rates (10 years and 30 years duration), there is likely to be an unlock in the US housing (and renovation) market, which would be stimulatory for growth.

Elsewhere, India has continued to invest in its infrastructure backbone, which is helping economic development, especially for the digital economy. China is navigating its demographic, debt and deflation challenges with accommodative government policy and its successful industrial policy to move into strategic, high-value-add industries, which has helped it find export markets for its highly competitive products. The decoupling of the US and China seems likely to continue under current regimes, and this adds another layer of complexity for investors. The Middle East is also increasingly becoming visible on the world stage as it pursues diversification away from oil.

The High Conviction portfolio remains a concentrated yet diverse group of advantaged companies that we believe are well-positioned for growth opportunities in this changing world. The transformation due to the expansion and accelerating capabilities of AI is in its infancy yet it will meaningfully influence industries and companies across the world in coming years and so the portfolio seeks to take advantage of that opportunity while being mindful of the disruption risks. In our view, there is a balance in having companies with significant revenue capture opportunities as industries evolve, such as TSMC, Microsoft, Meta and Amazon, alongside those which should garner cost and productivity savings but are less exposed to the evident changes , such as L'Oréal, Yum China, Intercontinental Exchange and Mercado Libre.

Stock Story: Taiwan Semiconductor

(Adrian Lu - Investment Analyst)

The world is undergoing a series of major technological transformations. From next-generation mobility and automation to cloud and AI-driven computing, the number of use cases underpinned by semiconductors continues to grow. As these technologies become more widespread and sophisticated, so too does our collective demand for these chips.

Semiconductors are the enablers of modern technology. They are embedded in virtually every device and system that permeates the modern economy, powering everything from smartphones and laptops to electric vehicles and data centres. Global chip demand is expected to double over the decade to 2030, with industry forecasts predicting worldwide semiconductor spend to reach US$1 trillion by 2030. That figure could prove conservative given the breadth of new growth opportunities, as most recently exemplified by AI.

But not all semiconductor companies are made alike. This is a vast ecosystem spanning intellectual property, design software, specialty materials, fabrication equipment and manufacturing. Within that ecosystem, Taiwan Semiconductor Manufacturing Company (TSMC) plays a unique and indispensable role as the world's leading dedicated foundry, manufacturing chips on behalf of other companies.

What makes its business so defensible is the extreme complexity and capital intensity of advanced chip manufacturing. Building just a single, advanced fab with a moderate output capacity can cost US$20 billion today. That cost will continue to rise as the industry maintains its relentless pursuit of computing performance and efficiency. TSMC's ability to make these investments and keep its expensive fabs utilised by manufacturing thousands of different products while pushing the frontiers of semiconductor technology is unmatched.

This has created a powerful industry dynamic. While many companies are designing chips, very few can manufacture them. The economics almost always favour outsourcing, and TSMC has emerged as the foundry partner of choice. From Apple and AMD to Nvidia and Broadcom, major chip designers rely on TSMC to bring their designs to life. The company commands a 67% share of the foundry market – more than five times its nearest competitor. In advanced manufacturing, used in applications such as data centres and smartphones, TSMC dominates with 90% market share.

TSMC's dominance is not just a function of cost and scale. It is also about customer trust, operational excellence, and long-term commitment to R&D, which has made it a critical enabler of global innovation.

To support its customers' supply chain resilience, TSMC has increasingly diversified its manufacturing footprint outside Taiwan. The most significant of these efforts is in the United States, where it is building advanced fabs in Arizona and recently committed an additional US$100 billion investment over the next several years. These moves reduce geographic concentration risk and signal TSMC's role as a critical strategic supplier.

With a strong long-term demand outlook, widening technological lead, expanding scale, and a near-monopoly on the most advanced chipmaking capabilities, TSMC is uniquely positioned in the semiconductor landscape. Most of the world's most consequential technological advances over the next decade will likely pass through TSMC's fabs. An investment in TSMC offers a highly attractive exposure to the future of technology.

IMPORTANT INFORMATION

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