

Magellan Global Equities Fund (Currency Hedged) (Managed Fund)



TICKER: MHG | ARSN: 606 840 206

AS AT 30 SEPTEMBER 2024

PORTFOLIO MANAGERS

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| INVESTMENT PHILOSOPHY | OBJECTIVES | PORTFOLIO CONSTRUCTION | INVESTMENT RISKS |
|--|--|---|--|
| To invest in outstanding companies at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk. | 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. | 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%. | All investments carry risk. While it is not possible to identify every risk relevant to an investment in the fund, we have provided details of risks in the Product Disclosure Statement. You can view the PDS for the fund on Magellan's website www.magellangroup.com.au . |

MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED) (MANAGED FUND): KEY PORTFOLIO INFORMATION

| TICKER | FUND SIZE | BUY/SELL SPREAD | MANAGEMENT AND PERFORMANCE FEES ¹ | INCEPTION DATE |
|--------|---------------------|-----------------|---|----------------|
| MHG | AUD \$107.3 million | Nil | 1.35% p.a. and performance fee of 10% of dual hurdle excess return [^] | 4 August 2015 |

[^] 10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World NTR Index (Hedged to 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.

PERFORMANCE²

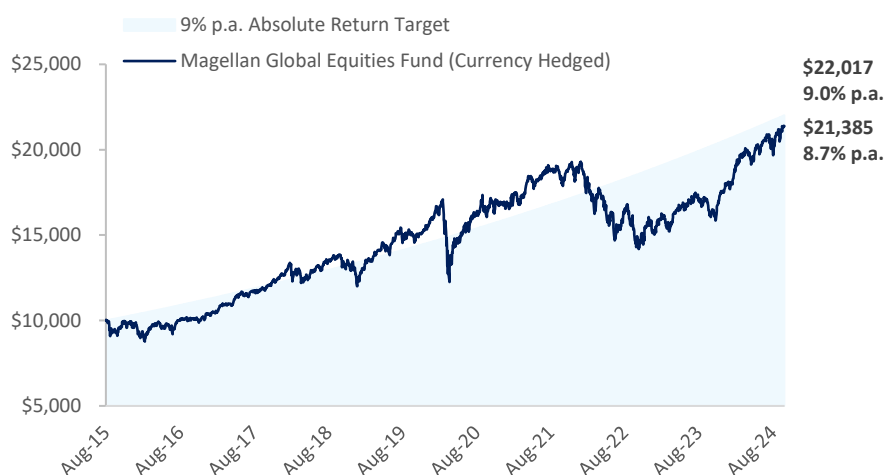
| | 1 MONTH (%) | 3 MONTHS (%) | 1 YEAR (%) | 3 YEARS (% p.a.) | 5 YEARS (% p.a.) | 7 YEARS (% p.a.) | Since Inception (% p.a.) | OUTPERFORMANCE CONSISTENCY ⁺ |
|------------------------------------|-------------|--------------|------------|------------------|------------------|------------------|--------------------------|---|
| MHG | 0.9 | 4.0 | 31.7 | 6.0 | 7.4 | 8.7 | 8.7 | 39% |
| MSCI World NTR Index (A\$ Hedged)* | 1.4 | 4.5 | 29.1 | 8.4 | 11.6 | 10.4 | 10.1 | - |
| Excess | -0.5 | -0.5 | 2.6 | -2.4 | -4.2 | -1.7 | -1.4 | - |

CALENDAR YEAR RETURNS

| | CYTD (%) | 2023 (%) | 2022 (%) | 2021 (%) | 2020 (%) | 2019 (%) | 2018 (%) | 2017 (%) | 2016 (%) | 2015 (% part year) |
|------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|--------------------|
| MHG | 18.1 | 19.9 | -21.5 | 13.4 | 6.6 | 26.8 | -0.9 | 23.0 | 5.6 | -2.6 |
| MSCI World NTR Index (A\$ Hedged)* | 18.2 | 21.5 | -17.7 | 23.7 | 10.3 | 26.7 | -7.4 | 19.8 | 10.4 | -3.9 |
| Excess | -0.1 | -1.6 | -3.8 | -10.3 | -3.7 | 0.1 | 6.5 | 3.2 | -4.8 | 1.3 |

Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD \$10,000²



Past performance is not a reliable indicator of future performance.

¹ Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

² 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.

⁺ Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

*MSCI World Net Total Return Index (Hedged to 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/

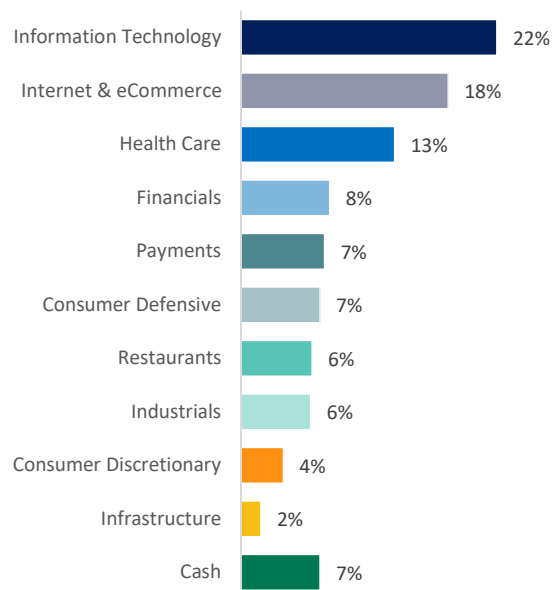
TOP 10 HOLDINGS

| STOCK | SECTOR ³ | % |
|-------------------------------|------------------------|-------------|
| Amazon.com Inc | Internet & eCommerce | 6.8 |
| Microsoft Corporation | Information Technology | 5.7 |
| SAP SE | Information Technology | 4.6 |
| Meta Platforms Inc | Internet & eCommerce | 4.3 |
| ASML Holding NV | Information Technology | 4.2 |
| Intercontinental Exchange Inc | Financials | 4.0 |
| Netflix Inc | Internet & eCommerce | 4.0 |
| Intuit Inc | Information Technology | 3.9 |
| Apple Inc | Information Technology | 3.9 |
| Stryker Corporation | Health Care | 3.8 |
| TOTAL: | | 45.2 |

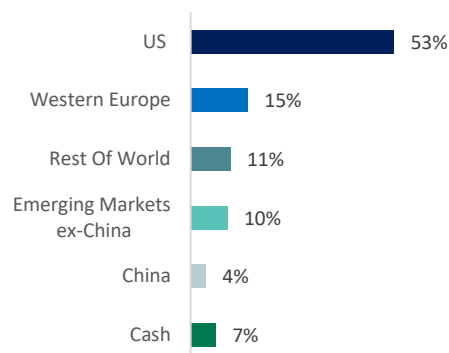
TOP CONTRIBUTORS/DETRACTORS 1 YEAR⁴

| TOP 3 CONTRIBUTORS | CONTRIBUTION TO RETURN (%) |
|-----------------------|----------------------------|
| Amazon.com Inc | 2.7 |
| SAP SE | 2.6 |
| Microsoft Corporation | 2.4 |
| TOP 3 DETRACTORS | CONTRIBUTION TO RETURN (%) |
| Novo Nordisk | -0.5 |
| Nestlé SA | -0.4 |
| AIA Group Ltd | -0.3 |

SECTOR EXPOSURE BY SOURCE OF REVENUE³



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE³



³ 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.

⁴ 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

The September quarter saw a wild ride in markets. The MSCI World Index gained 6.4% in USD and 2.4% in AUD. Markets globally diverged from recent trends and from each other with returns being driven by differing actions by central banks and governments. Slowing inflation gave way to interest rate cuts by many central banks while the 50bp rate cut by the Federal Reserve gave China's government room to finally deliver a much-needed stimulus package and signal more would follow. The surge in Technology stocks ended as investors became more cautious about the length of time before profits would benefit from productivity solutions unlocked by Generative Artificial Intelligence. This was reinforced by regulatory scrutiny of the Technology sector. Overall, the MSCI sectors of Utilities (+15.7%), Real Estate (+15.3%), Financials (+8.5%), Materials (+7.6%) and Industrials (+7.5%) led markets in local currency terms in the quarter given sensitivity to falling rates. In contrast, Information Technology (+0.8%) and Communication Services (+1.8%) (by far the strongest sectors in the June quarter) were lagged only by the fall in Energy (-3.8%).

Regionally we saw the S&P 500 rise 5.5%, the Nasdaq Composite rise 2.6% and the Stoxx 600 rise 2.2% while China's CSI 300 rose 16% in CNY (21% in September alone) and Japan's Nikkei 225 fell 4.2% with a bout of material volatility in August. Australia's S&P/ASX 200 gained 7.8%, helped by linkages to China and the AUD gained 3.9% against the USD.

The 50bp rate cut by the Federal Reserve was the first since 2020, and alongside US economic growth data points, saw a 55bp fall in the 10-year US Treasury yield to 3.8%. This decline came despite expectations that deficits would rise under either Harris or Trump, a situation that would place upward pressure on bond yields. The Chinese Government's stimulus appeared designed to reduce the likelihood of current challenges in the housing markets and improve weak consumer and business confidence. Towards the end of the quarter, Israel undertook preparatory attacks on Hezbollah, raising the risk of higher energy prices, inflation and interest rates, as well as slower growth. These are all risks we are monitoring closely.

Fund Commentary

The portfolio recorded a positive return for the quarter to September 2024. The stocks that contributed the most this quarter were Intercontinental Exchange, HCA Healthcare, Brookfield Corp, UnitedHealth Group and Trane Technologies, which all rose over 14% and up to 32.5% for Brookfield who gave a bullish update on the outlook at a Capital Markets Day. We saw strong second-quarter results from HCA, UnitedHealth Group and Trane Technologies which, alongside notable upgrades to earnings expectations for each, drove their prices higher. For ICE and Brookfield, which are both performing very well operationally, we would attribute share price strength more to their sensitivity to falling interest rates as the Fed did deliver a 50bp policy rate cut by quarter end.

Detractors were principally ASML and Novo Nordisk, both down over 10% this quarter. ASML traded down with semiconductor stocks as worries arose on a mid-cycle slowdown for semis production and rules on export restrictions remained in the headlines. We believe neither has any material implications for ASML's extraordinary growth prospects in the years ahead as facilities to produce semiconductors are added and efforts to improve semiconductor efficiency continue across the globe. ASML will update investors on its long-term expectations at its Capital Markets Day in mid-November. For Novo, fears of competition, with an increasing cadence of competitor drug trial read-outs, as well as ongoing debates around US pricing, reimbursement and the needed supply ramp, weighed on the stock in the near term. We view fears of competitor products as overdone given significant first-mover advantage in difficult-to-scale manufacturing/supply workflows as well as Novo's pending read-outs on next-gen GLP1s.

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

Outlook

Similar to our outlook in June 2024, we remain optimistic about the structural tailwinds that we believe will support growth well above GDP across a large number of our portfolio companies. Since then, we have seen further progress on inflation around the world (perhaps with the exception of Australia) and the balance of risks has shifted, to be tilted now to risks of economic growth more than inflation. This has led to policy rate cuts by Central Banks in Europe, the UK, Canada, the US and other markets, while Japan has lifted its extremely low policy rate in a move that jolted markets in August. We expect ongoing rate cuts into and through 2025, the pace of which is mostly dependent on the resilience of economies. The Fed Put is back; in other words, we anticipate the Fed to work to deliver a softer but still positive path for economic growth as inflation is in the final stages of normalising to around 2%. This should be a decent backdrop for equities though this also feels fairly well appreciated in the current pricing of many companies.

The escalation of war in the Middle East is a risk vector to watch, as is, in our view, the outcome of the US election. We would be concerned to see either Republicans or Democrats take both the Executive and Legislative branches (White House and Congress) of government given the elevated risk of large, unfunded fiscal plans. We cannot presently rule out the risk of retaliatory strikes by Israel that hit military targets (highly likely) or energy infrastructure assets and so oil prices may remain volatile. The indirect implications can hurt economic growth.

Elsewhere China has begun what seems likely to be economic support that keeps increasing. The package, while notable, is thus far, modest (in absolute cost scale and when compared to the stimulus as a percentage of GDP post GFC) but markets appear to have responded quickly to the expectation that China can no longer tolerate the risks to its economy that would ultimately lead to social instability. This supports the market's pricing in much greater fiscal support evolving over coming months. Chinese stocks look somewhat underpriced even after the rally if support keeps increasing and truly improves consumer confidence and spending. However, we are not bullish on the long-term prospects for China under Xi, do not find the political risks resolved or palatable and so continue to stay relatively unexposed to this economy. Our goal of absolute compound returns while minimising risk of capital loss for our investors means we do not feel compelled to chase a risky short-term trade nor count true risk as guided by benchmark relative returns.

China's investments into industries related to the energy transition are notably reshaping the cost competitiveness of some industries, tilting the playing field to the disadvantage of, in particular, Europe's industrial complex. Recent profit warnings across the auto industry evidence this shift, exacerbated by weaker demand for durable goods like cars as higher rates have weighed on many consumers.

In summary, while we continue to see excellent individual companies trading at attractive prices that we believe position us well to deliver our objectives, we are cautious about some of these risks. That could mean further volatility as we traverse the balance of 2024 and into early 2025. Given the expected further fall in interest rates to come, if any of these risks play out, they are likely to provide opportunity for patient investors.

Stock Story – Colgate-Palmolive

(Lucina Martin – Investment Analyst)



It is not an easy feat to be crowned the world's most chosen personal care brand. This brand is found in more than 50% of all global households. It demands a diligent management team, a deep understanding of the consumer and consistent investment in new products and branding.

Colgate-Palmolive has been an excellent steward of its eponymous brand, Colgate, since its humble beginnings in the early 1800s. Since then, the company has transformed the brand from a basic dental powder in a glass jar into a global brand with operations spanning more than 200 countries. Grounded in differentiated R&D and science, Colgate now has a vast assortment of oral care products to make sure you have the Instagram-perfect smile. In the global toothpaste category, which has exhibited consistent ~5% growth between 2009 and 2023, Colgate holds a 20% market share and is 2.5x larger than the next competitor. Colgate's dominance is even more profound in certain markets such as Australia and Mexico where it controls a staggering ~53% and ~77% share respectively. Representing ~50% of its \$19.5b global revenue base, this highly scaled, profitable brand is the cornerstone of Colgate-Palmolive's economic moat. Toothpaste's habitual use under various economic environments also drives revenue and earnings predictability and, as a result, Colgate-Palmolive performs an important defensive role in Magellan's portfolio construction process.

As toothpaste is a 'must stock' item with immense scale, Colgate has favourable bargaining power within a consolidating retail environment. Colgate-Palmolive's leading personal and home care brands, such as Palmolive and Ajax that together represent ~30% of revenue, add further scale and bargaining power with grocery customers. Colgate's competitive moat is also protected by its differentiated R&D and large network of dentist endorsements. As a result, it faces a lower competitive threat from start-up and grocery-owned brands in developed markets. Meanwhile, in developing markets Colgate's popularity and consumer loyalty have been underpinned by its 'Bright Smiles, Bright Futures' educational program, which has engaged with more than 1.7b disadvantaged children since its launch in 1991.

Under the umbrella of Colgate-Palmolive lies another surprising asset, Hill's Pet Nutrition, which accounts for the remaining ~20% of company revenue. On the surface this may seem like an unusual pairing; however, this brand is closely aligned with Colgate-Palmolive's philosophy of scientific innovation and professional endorsement. For example, Hill's Pet Nutrition products are sold exclusively via veterinarians, certain ecommerce retailers and specialty pet retailers such as Petbarn rather than via a mass grocery retailer where its premium offering is difficult to showcase. Accounting for only a minor share of the global pet food market, Hill's still has a long runway to expand its business against a growing pet population. Hill's is also favourably exposed to an ageing pet

population via its specialised therapeutic product line, Prescription Diet, which offers pet parents best-in-class nutrition-based solutions for health conditions such as dermatitis, kidney disease and cancer.

As mentioned, the winning recipe for a high-quality, growing consumer brand is diligent management, a strong consumer understanding and a consistent investment approach. A great reminder of this concept was Colgate-Palmolive's subpar execution between 2015 and 2019 when the company had an unhealthy focus on short-term profitability and compromised investments in advertising and product innovation. Pleasingly, the current management team have identified these issues and increased advertising investments by 50% or \$1b since 2018. As revenue growth has reaccelerated, management gained additional flexibility to deploy even more investment funds and stimulate further growth. The company is on track to increase advertising by 15% this year alone. The fruits of these investments have driven positive business and share price performance.

Alongside these advertising adjustments, management instilled a longer-term innovation approach across the organisation. Management quickly discontinued plans for yet another toothpaste flavour that may add little growth and instead focused on developing new products that would revolutionise the category and create a new step in a consumer's oral care regime. Supported by its vast knowledge of the consumer, the company identified a growing beauty trend and a consumer desire for more advanced teeth-whitening products. Colgate-Palmolive's R&D teams quickly innovated on whitening formulations and product packaging, and subsequently broadened the product portfolio from merely toothpaste to cost-effective, DIY whitening pens. Pleasingly, these efforts have grown market share, reignited the company's growth flywheel and generated high-margin profits.

However, the hard work does not stop here. Every day, consumers are enticed by new brands and products, and Colgate-Palmolive must stay close to their consumers and their changing needs. We have confidence that Colgate-Palmolive's network of dentists and veterinarians, close retail partnerships, cumulative consumer insights and material reinvestment capacity place it in a strong position to navigate these changes and to grow cash flows for shareholders.

Sources: Company filings, Euromonitor.

IMPORTANT INFORMATION

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