Magellan Global Fund - Open Class Units - Active ETF

TICKER: MGOC | APIR: MGE0001AU | ARSN: 126 366 961

AS AT 31 DECEMBER 2024

PORTFOLIO MANAGERS	NIKKI THOMAS, CFA, ARVID STREIMANN, CFA AND ALAN PULLEN

INVESTMENT PHILOSOPHY	OBJECTIVE	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% per annum 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 - 10%.	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 FUND - OPEN CLASS UNITS - ACTIVE ETF: KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	BUY/SELL SPREAD[1]	MANAGEMENT AND PERFORMANCE FEES[2]	INCEPTION DATE
MGOC	AUD $8,418.5 million	0.07% / 0.07%	1.35% p.a. and performance fee of 10% of dual hurdle excess return^	1 July 2007

^ 10.0% of the excess return of the Open 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.
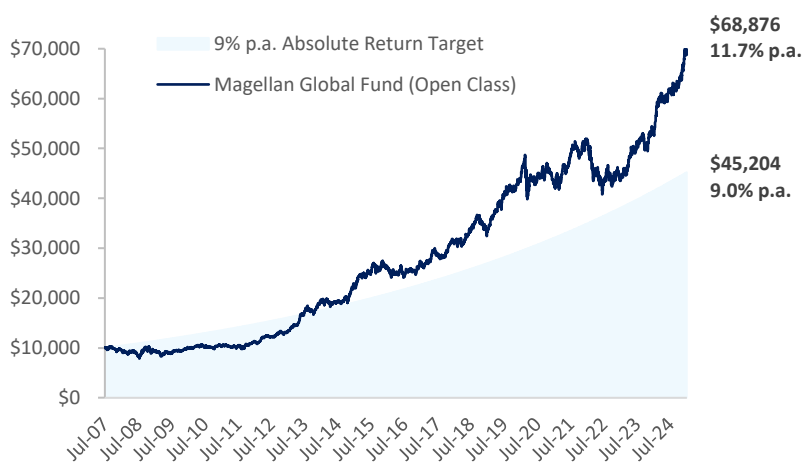
PERFORMANCE[3]

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	7 YEARS (% p.a.)	10 YEARS (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY[+]
MGOC	2.9	10.8	29.6	10.1	9.7	12.2	11.8	11.7	67%
MSCI World NTR Index (AUD)*	2.5	11.9	30.8	12.2	14.0	14.0	13.1	8.9	-
Excess	0.4	-1.1	-1.2	-2.1	-4.3	-1.8	-1.3	2.8	-

CALENDAR YEAR RETURNS	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)
MGOC	29.6	22.1	-15.7	19.3	0.0	28.1	9.8	14.2	3.7	15.3	14.5	48.7	18.3	9.8	2.4	6.6
MSCI World NTR Index (AUD)*	30.8	23.0	-12.2	29.3	5.6	27.9	1.4	13.3	8.0	11.5	14.7	47.0	14.4	-5.6	-1.9	0.8
Excess	-1.2	-0.9	-3.5	-10.0	-5.6	0.2	8.4	0.9	-4.3	3.8	-0.2	1.7	3.9	15.4	4.3	5.8

Past performance is not a reliable indicator of future performance.

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

$68,876
11.7% p.a.

$45,204
9.0% p.a.

Past performance is not a reliable indicator of future performance.

MARKET CAPTURE[4]

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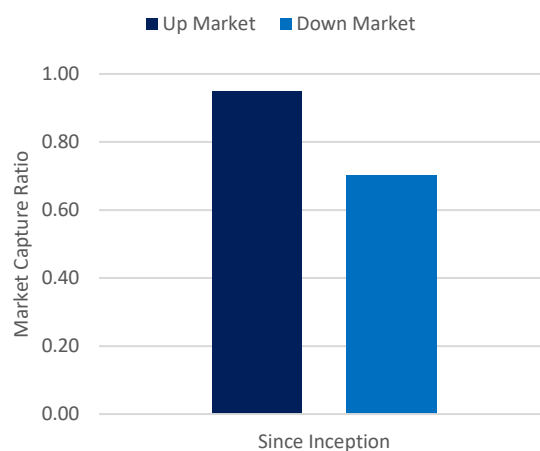
[1] Only applicable to investors applying for units and withdrawing units directly with the Responsible Entity.

[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] Market capture is calculated after fees measured against the monthly returns of the MSCI World Net Total Return Index (AUD)*. Up market capture shows how the fund performed relative to the index while the market is rising. Down market capture shows how the fund performed relative to the index while the market is falling.

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

[*] 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/
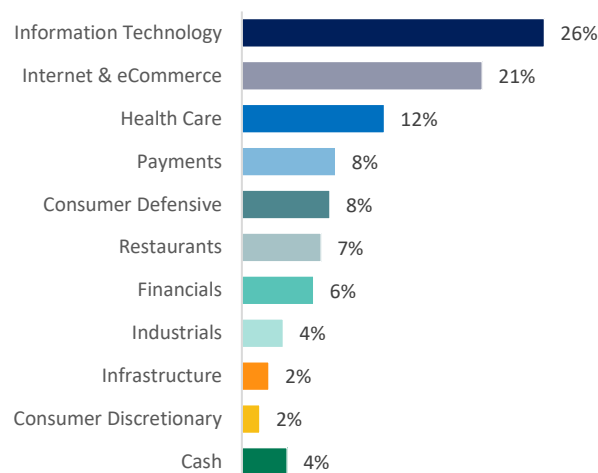
TOP 10 HOLDINGS

STOCK	SECTOR[5]	%
Amazon.com Inc	Internet & eCommerce	8.1
Microsoft Corporation	Information Technology	7.2
Alphabet Inc	Internet & eCommerce	4.8
Mastercard Inc	Payments	4.3
SAP SE	Information Technology	4.3
Apple Inc	Information Technology	4.3
Netflix Inc	Internet & eCommerce	4.1
Meta Platforms Inc	Internet & eCommerce	4.0
ASML Holding NV	Information Technology	3.9
Chipotle Mexican Grill Inc	Restaurants	3.9
	TOTAL:	48.9

SECTOR EXPOSURE BY SOURCE OF REVENUE[5]

Sector	%
Information Technology	26%
Internet & eCommerce	21%
Health Care	12%
Payments	8%
Consumer Defensive	8%
Restaurants	7%
Financials	6%
Industrials	4%
Infrastructure	2%
Consumer Discretionary	2%
Cash	4%

TOP CONTRIBUTORS/DETRACTORS 1 YEAR[6]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Amazon.com Inc	3.9
Netflix Inc	3.1
SAP SE	3.0

TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
Novo Nordisk ADR	-1.3
Nestlé SA	-0.5
L'Oréal SA	-0.3

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[5]

Region	%
US	53%
Western Europe	16%
Rest Of World	12%
Emerging Markets ex-China	11%
China	4%
Cash	4%
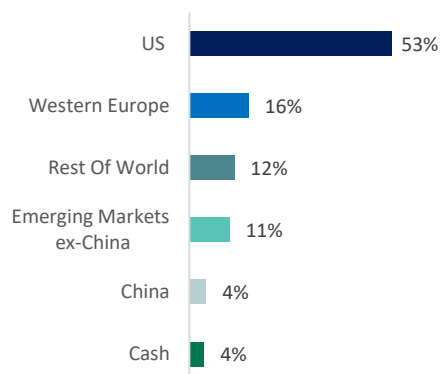
[5] Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding.
[6] Shows how much the stock has contributed to the fund's gross return for the period in AUD. Excludes non-disclosed positions established in the latest quarter.

Market Commentary

Global share returns were broadly flat in the December quarter, with the MSCI World Index down 0.2% in USD. With the AUD weakening by 11%, the AUD return from global shares was 12% in the quarter. The convincing win of Donald Trump and his Republican Party in the US elections had a major impact on investment markets, with the 10-year US Treasury yield rising by 77bp to 4.58% as investors upgraded their growth, inflation and budget deficit expectations while reducing the expected number of cuts by the Federal Reserve. The best performers in the period were Consumer Discretionary (+11.0%), Communication Services (+7.8%) and Financials (+7.1%) as the US economic outlook brightened, while Materials (-10.6%), Healthcare (-9.4%) and Utilities (-5.8%) fared worst on higher interest rates and elevated government policy uncertainty.

The Japanese market performed best in the quarter, with the Nikkei 225 returning 5.3% in Yen. This was followed by the US where the broad-based S&P 500 rose 2.3%. Within the US, the tech-heavy Nasdaq Composite grew 6.3% as the growth prospects of technology companies remained bright. The worst-performing region was emerging markets, with the MSCI's USD index declining 8.0% and China's CSI 300 1.7% lower. Returns were also negative in Europe, with the STOXX Europe 600 down 2.6%, while Australia's S&P/ASX 200 Accumulation Index was off 0.8%.

The US economic data remained solid, with the jobless rate ending the quarter at 4.2% and the PCE deflator finishing the year at 2.4%, above the Fed's target of 2%. While the Fed cut their policy rate by a cumulative 50bp through the quarter, in December they signalled they did not expect to cut by as much as previously indicated. Other central banks such as the European Central Bank, Bank of Canada and Bank of England cut their policy rates to bring more accommodative monetary policy as inflation falls and economic growth is soft. Other notable developments in Europe were successful no-confidence motions against the German Chancellor and French Prime Minister. In China, the weak economic outlook saw the government announce a 10 trillion RMB ($1.4 trillion) package focussed on strengthening local government finances, thereby reducing downside risks to the economic outlook. There was little to suggest that the Chinese Government is looking to create upside risks to economic growth.

Fund Commentary

The portfolio recorded a positive return for the quarter to December 2024. The stocks that contributed the most this quarter were Amazon and Netflix, with smaller gains from SAP, Visa and Brookfield. Amazon gained as investors became more confident about Amazon's ability to continue to grow revenues and earnings in its online business amazon.com, while its leading cloud business AWS revealed AI progress. Netflix's share price rose on the back of further growth in its subscriber base, and the success of recent Live Events in NFL and boxing, bringing higher conviction on the long-term growth as it extends its advertising model. SAP reported a strong Q3 result that showcased momentum in cloud services businesses alongside cost restraint, which drove wider profit margins.

The largest detractor was Novo Nordisk, with smaller drags from HCA Healthcare, UnitedHealth, ASML and Eversource Energy. Healthcare stocks across the market struggled post the Trump election win given general unease on his cost-cutting intentions and the current huge burden of the US healthcare system. Novo's share price fell as the clinical trial results of CagriSema, a new weight loss drug, showed 22% weight loss, not 25% as anticipated. HCA was affected by investor concerns about regulatory changes affecting healthcare exchanges and subsidies, which would reduce the number of patients receiving care in its hospitals. We are less concerned about this issue given many Americans enrolled in these programs are Republican voters. UnitedHealth was hurt by talk of government cost cutting and an online backlash against insurers following the fatal shooting of its insurance division CEO, but we believe the market is overestimating the likely impact on the company's profitability.

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

Outlook

This year, 2025, is shaping up to be an incredibly interesting year for investors. After two years of strong annual returns for our investors as global equity markets rallied strongly, both strong earnings cases and justifiable starting prices are needed for another year of strength.

At present the US economic backdrop is balanced and positive, with solid economic growth and inflation moving closer to 2%. US productivity is supportive at an estimated 2% and real wage gains, house price gains and share market appreciation are supportive of consumers, especially the wealthier cohorts. Europe's industrial heartlands are being affected by a loss of competitiveness that is slowly playing out with revenues being lost to competition elsewhere, especially China. This is seeing southern Europe emerge as relatively better placed for future growth. Japan continues to make progress on its agenda of improving returns on capital though its demographic challenges remain.

Commentators spend a lot of time extolling the 'value' of equity markets based on aggregated metrics such as prices relative to near-term earnings, but these metrics overly simplify the job for investors in finding opportunities and avoiding risks. As passive investing has come to dominate equity market allocations, prices can become disconnected from fundamental value even more than before as these baskets of stocks see flows (in and out) based on themes and macro factors, not the underlying value of the companies themselves. Much continues to be said about the Magnificent 7 (or is it now 8?) and it is true these behemoth companies continue to dominate indices and returns. Each of these companies has the potential to deliver good shareholder returns and many have the potential to grow well ahead of competitors given scale advantages, existing economic moats, very high returns on capital and strong cash generation, though incumbency risks and rapid innovation in their core markets cannot be ignored.

The incoming US Administration and the reshaping of US policy that may result could have profound implications for performances of companies across the globe. President-elect Trump's return may also result in an uptick in equity market volatility given his communication style and tendency to sweeping statements. On the one hand, deregulation and government cost-cutting are clearly high on the agenda and broadly positive for markets and economic growth. On the other hand, what gets done, and when, on taxes, cutting immigration to the US and levying tariffs on goods bound for the US will matter for fiscal balances and inflation.

A bullish scenario could see another very good year for investors. This would see US policy interest rates head back towards 3%, 10-year yields likely rangebound or lower and housing turnover and activity pick up as mortgage rates are increasingly acceptable for those looking to own or update housing. Business investment would be supported by policy efforts to lift local production, especially for AI-related industries and associated energy needs. Capital markets should see renewed vigour in M&A and IPOs as deregulation and reduced capital buffers lift activity. A virtuous cycle then supports economic growth via jobs creation, wage expansion, higher property values and so on. AI innovation will be important in this scenario to balance labour market tightness with productivity and capital substitution.

A bearish scenario would likely be the result of unexpected US Administration policy actions that are too disruptive to industries or aggressive fiscal spending with negative implications for government debt levels driving rates and inflation higher. Other risks, from geopolitical conflict to cyber attacks, social unrest, extreme weather events or political events, elsewhere could deliver a shock amplified by an already high US fiscal deficit. A 10-year bond yield move above 5% would pressure equities. Income inequality in many parts of the world remains a problem for the balanced advancement of populations while the high US dollar will weigh on upcoming reported results of US-based multinationals.

Overall, the portfolio is well positioned for the years ahead. Our focus on high-quality companies with attractive earnings outlooks and valuations means that no matter what scenario unfolds, the risk of permanent capital loss is low, yet the portfolio will benefit from structural growth thematics occurring around the world.

Stock Story - Netflix

(Ryan Joyce, CFA – Portfolio Manager and Sector Head Financials and Technology)

Netflix's operating profit increased from US$800m in 2017 to ~US$10b in 2024. We see the potential for this to triple to US$30b over the next decade as streaming continues to take share of video viewership and Netflix leverages its leadership position and executes growth strategies to sustain its industry-leading scale.

Scale is critical for video streaming platforms whose largest expense is content, for which the marginal cost of viewership is close to zero. Platforms with greater scale can invest in high-budget, high-profile films and series, offer more diverse content by genre and region, and take more shots on goal in a hit-based industry where *Squid Game* and *The Tiger King* can achieve unexpected success.

Measured across revenue, unique subscribers or engagement, Netflix has 2-4x the global scale of streaming rivals[1] including Disney and Warner Bros Discovery. Netflix's scale advantage has been expanding as it continues to improve its offering and monetise password sharers while peers have lifted prices and pulled back on content and marketing spend in the pursuit of profitability. In 2024 Netflix added ~30m subscribers vs ~15m for each of Disney and Warner Bros Discovery's HBO Max. Looking forward, we expect Netflix to drive further scale through the strategic expansion of its content budget and growth in its ad-supported offering.

Netflix spends ~US$17b a year on content, a figure we expect to grow by ~US$1b a year. We expect a growing proportion of this budget will be allocated to content franchises, event television and local content.

Being a relative newcomer to the media industry, Netflix owns a limited amount of recognisable IP or content franchises. However, as a small proportion of Netflix's original content breaks through each year, Netflix can increase its annual spend on established IP or returning seasons of popular shows like *Bridgerton*, *Stranger Things*, *Emily in Paris* and *Night Agent* that offer proven engagement, and schedule their release to minimise subscriber churn. Netflix's fostering of IP and content franchises is also a prerequisite should it seek to operate entertainment parks in the future, a large source of profits for Disney and Universal Studios.

While not without its critics, the Tyson vs Paul boxing event garnered over 100m views globally, demonstrating Netflix's unique ability to aggregate live viewership across a large and diverse subscriber base. This unique ability is attractive to partners like sports leagues and celebrities seeking to grow their own audiences. As a result, partners are open to creating such events by carving out special packages and less focused on extracting the maximum near-term economics. For example, Netflix's NFL Christmas Gameday was a win for the NFL in terms of showcasing it to a younger and more global audience, and a win for Netflix in terms of growing mindshare with older male audiences in the US where it under indexes. We expect Netflix to invest in more win-win event television to deliver targeted subscriber growth and reduce churn.

Local content is another area where we expect to see disproportionate investment by Netflix in the years ahead. Netflix expanded into international markets well ahead of Hollywood peers and has used that head start to understand the taste of local audiences, build local content development capabilities where costs are often much lower, and establish itself as one of a handful of relevant streaming services alongside local competitors in many markets. This positioning and increasing investment will be critical to sustaining Netflix's subscriber growth and scale advantage vs peers in the years ahead given the relative maturity of English-speaking markets like the US, the UK and Australia.

Another driver of subscriber and revenue scale for Netflix is its ad-supported tier. The introduction of the lower-priced ad tier in 2023 meaningfully expanded Netflix's addressable customer base and has been a key contributor to recent subscriber growth with the ad tier accounting for ~50% of sign-ups in markets where it is available and growing to represent 10% of all subscribers. While having been a drag in 2024, Netflix's ad tier will be an important driver of per-member revenue growth in the coming years through higher engagement, better advertising capabilities and increases in ad load from a very low base.

Despite a favourable view of Netflix's long-term earnings potential as it continues to scale, there are risks to this outlook and profits rarely progress in straight lines. Key risks for Netflix include subscriber growth moderating more than expected as the tailwind from the reduction in password sharing fades, a closing of the gap by competitors due to sustained strong execution and the release of highly popular content, and the recent strengthening of the USD that affects revenue and margins.

[1] *Excludes YouTube, which has comparable viewership but is predominantly user-generated content and less scalable due to revenue share agreements with creators.*