

# Magellan High Conviction Trust (Managed Fund)



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

AS AT 30 SEPTEMBER 2024

## PORTFOLIO MANAGER

NIKKI THOMAS, CFA

### INVESTMENT OBJECTIVE AND PHILOSOPHY

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

Aims to deliver 10% p.a. 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 - 50%.

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. While it is not possible to identify every risk relevant to an investment in the trust, we have provided details of risks in the relevant Product Disclosure Statement or offer document. You can view the PDS for the trust on Magellan's website [www.magellangroup.com.au](http://www.magellangroup.com.au).

## MAGELLAN HIGH CONVICTION TRUST (MANAGED FUND): KEY PORTFOLIO INFORMATION

TICKER	TRUST SIZE	BUY/SELL SPREAD <sup>1</sup>	MANAGEMENT AND PERFORMANCE FEES <sup>2</sup>	INCEPTION DATE
MHHT	AUD \$432.9 million	0.07% / 0.07%	1.50% p.a. and performance fee of 10% of excess return <sup>^</sup>	11 October 2019

<sup>^</sup> 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<sup>3</sup>

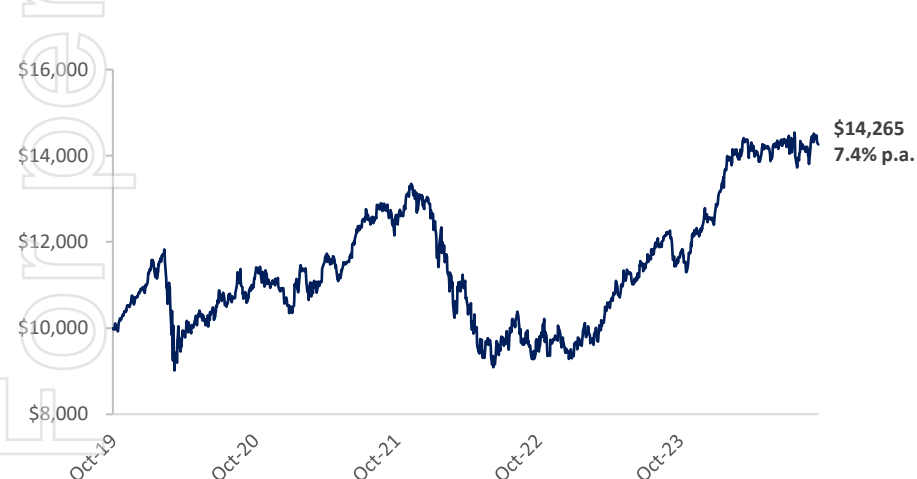
	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
MHHT	0.4	0.2	24.7	4.8	7.4

### CALENDAR YEAR RETURNS

	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (part year)
MHHT	13.7	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<sup>3</sup>



Past performance is not a reliable indicator of future performance.

### TRUST CHARACTERISTICS<sup>4</sup>

	3-YEAR	AVERAGE	HIGH	LOW
Cash Weight		4.1%	18.7%	1.1%
Number of Stocks		14	17	10
Hedging Weight		0.3%	10.1%	0.0%

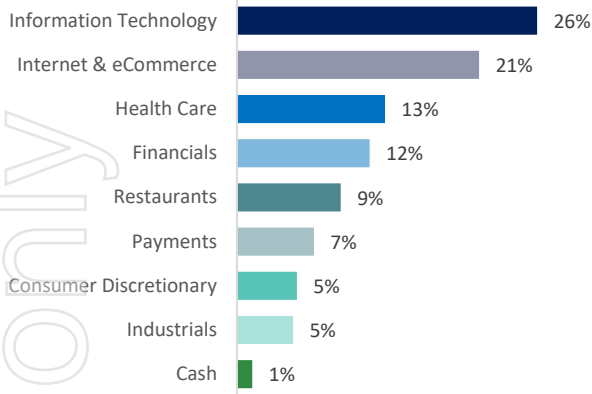
<sup>1</sup> Only applicable to investors applying for units and withdrawing units directly with the Responsible Entity.

<sup>2</sup> Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

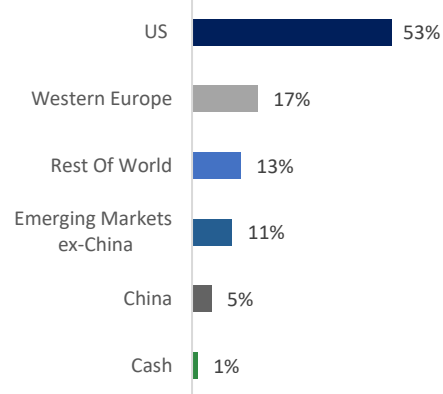
<sup>3</sup> Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.

<sup>4</sup> 3-year average cash weight and hedging ratio are calculated using month end values over the period.

## SECTOR EXPOSURE BY SOURCE OF REVENUE<sup>5</sup>



## GEOGRAPHIC EXPOSURE BY SOURCE OF REVENUE<sup>5</sup>



## TOP CONTRIBUTORS/DETRACTORS 1 YEAR<sup>6</sup>

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Amazon.com Inc	3.5
Microsoft Corporation	3.1
Intercontinental Exchange Inc	2.9

TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
Ulta Beauty Inc	-1.7
Novo Nordisk	-0.5
WEC Energy Group Inc	-0.2

## TOP 5 HOLDINGS (ALPHABETICAL ORDER)

STOCK	SECTOR <sup>5</sup>
Amazon.com Inc	Internet & eCommerce
ASML Holding NV	Information Technology
Brookfield Corporation	Financials
Microsoft Corporation	Information Technology
Visa Inc	Payments

<sup>5</sup> 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.

<sup>6</sup> 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

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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, major stimulus package and signal more would follow. The surge in Technology stocks finally saw some caution about the time frame for the shift toward Generative Artificial Intelligence to unlock new productivity and scalable solutions. In addition, regulatory actions and scrutiny of Tech company dominance made headlines and weighed on sentiment.

Overall, the MSCI sectors of Real Estate (+20%), Utilities (+17.6%), Financials (+10.7%), Materials (+10.6%) and Industrials (+10.4%) led markets in the quarter given sensitivity to falling rates while Information Technology (+1.5%) and Communication Services (+2.8%) (the two strong sectors last quarter) were lagged only by the fall in Energy (-2.4%).

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.

## Fund Commentary

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The portfolio was flat for the September quarter with decent local currency returns offset by a 3% drag of a strengthening AUD. Top contributors were our holdings in Brookfield, HCA Healthcare and Intercontinental Exchange while the sell-off in semiconductor stocks dragged down ASML in the quarter. Brookfield gave a bullish update on the outlook at a Capital Markets Day, outlining a plan to deliver 17%, and up to 25%, in annualised growth in Distributable Earnings (a figure one could equate to Free Cash flow) over the next five years. We saw strong second-quarter results from HCA and notable upgrades to earnings expectations. For ICE and Brookfield, which are both performing very well operationally, we would attribute recent share price strength to their sensitivity to falling interest rates as the Fed delivered a first policy rate cut, at 50bp, by quarter end.

Elsewhere Alphabet was weighed down by regulatory scrutiny and potential actions to reduce its dominance in Search. While we expect some enforcement is likely, the timing remains a year to two away given court procedures and challenges.

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

## Outlook

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We remain optimistic about the structural tailwinds that will support growth well above GDP across our portfolio companies. Further progress on bringing down inflation around the world means the balance of risks has now tilted to risks of economic growth more than inflation. This has seen 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 reasonably good 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 (House and Senate) parts of government given the elevated risk of large, unfunded fiscal plans. We cannot presently rule out 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 thus far is modest (in absolute cost scale and in comparison 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 and so is pricing in much greater fiscal support to come.

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. 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 macro risks. That could mean further volatility as we traverse the balance of 2024 and into early 2025. Given the expected further fall in policy interest rates over the next year, if any of these risks play out, they are likely to provide opportunity for patient investors.

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