Magellan High Conviction Trust - Active ETF

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

MAGELLAN ASSET MANAGEMENT

AS AT 31 DECEMBER 2024

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. 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.

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 $482.6 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.

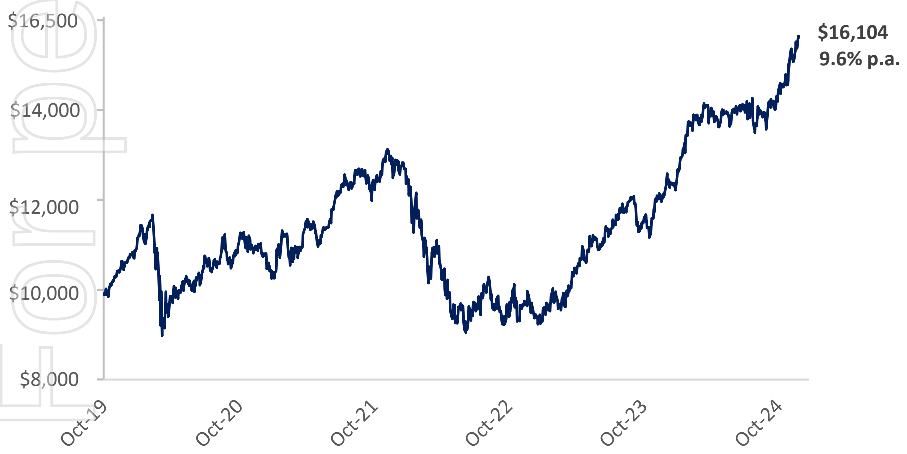
PERFORMANCE[3]

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	Since Inception (% p.a.)
MHHT	2.6	12.9	28.3	7.7	8.3	9.6

CALENDAR YEAR RETURNS	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (part year)
MHHT	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	4.0%	18.7%	1.1%
Number of Stocks	14	18	10
Hedging Weight	0.5%	10.1%	0.0%

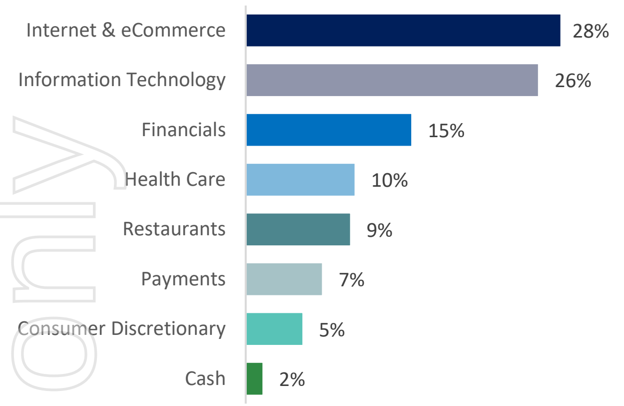
[1] Only applicable to investors applying for units and withdrawing units directly with the Responsible Entity.

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

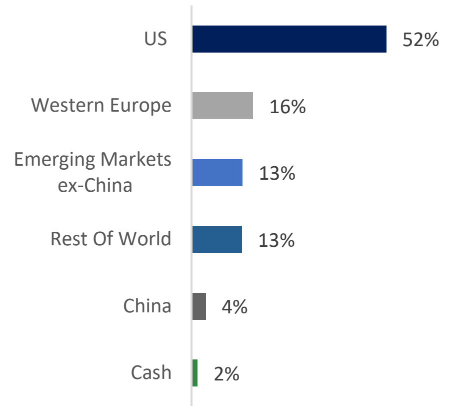
[3] Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.

[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 (%)
Amazon.com Inc	5.1
Brookfield Corporation	3.2
Alphabet	2.9
TOP 3 DETRACTORS	**CONTRIBUTION TO RETURN (%)**
Ulta Beauty Inc	-2.0
Novo Nordisk ADR	-1.4
Mercadolibre Inc	-0.4

TOP 5 HOLDINGS (ALPHABETICAL ORDER)

STOCK	SECTOR[5]
Alphabet Inc	Internet & eCommerce
Amazon.com Inc	Internet & eCommerce
Brookfield Corporation	Financials
Microsoft Corporation	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 December quarter saw global equities, at the index level, take a pause, with the MSCI World Index (USD) flat, though a further 11% decline in the AUD in the quarter was helpful to Australia-based investors' returns. The NASDAQ Composite continued to lead markets, up 6.3%, while overall Emerging Markets struggled (MSCI Emerging Markets Index down 8%). The Consumer Discretionary, Communication Services, Financial and Information Technology sectors led the gains up 11%, 7.9%, 7.1% and 5.4% respectively. Materials, Healthcare, Real Estate and Utilities fell the most (down 10.6%, 9.4%, 7.6% and 5.6% respectively) reflecting greater caution on the amount interest rates will fall in 2025 as well as potential policy risks (especially Healthcare but also Energy and Deficits) under the new US Administration. President-elect Trump's inauguration is 20 January 2025.

With the US election decided in November, initial enthusiasm for segments of the market that are perceived beneficiaries (deregulation, lower taxes and improved capital markets) gave way to repositioning away from those that may be adversely affected by new policy direction. The Federal Reserve took another 25bp policy rate cut in December to 4.25-4.5%, while raising inflation forecasts and signalled just two more cuts in 2025 even though Powell continues to signal monetary policy remains meaningfully restrictive. President-elect Trump's agenda and speed of implementation will be important in determining risks to growth and inflation and the path of interest rates in 2025. US 10-Year yields finished 2024 at 4.58%, up from below 4% at the start of the quarter.

The US continues to hold its lead in nominal economic growth with strong consumer spending, given sustained real wage gains, four years of uninterrupted monthly job gains and an estimated increase in net worth of close to 20% over the past two years. Alongside business fixed investment growth, strong corporate profits and AI enthusiasm fuelled by large venture capital raisings, US economic growth has supported another great year in US equities. While progress on inflation slowed recently, absent significant policy shifts, it seems likely to continue to decline in the months ahead. Elsewhere, Europe has seen a deteriorating Euro and a thick haze of trade conflict and lost competitiveness in key industries like autos and related industrials while China injected liquidity and is trying to stabilise, even improve, consumer confidence and property markets.

Trust Commentary

The Magellan High Conviction Trust performed well in the December quarter with currency moves a notable tailwind as the USD appreciated. Our best contributors were Amazon, Salesforce and Visa followed by Brookfield Corp and Booking Holdings. Amazon held its WS re:Invent event in December introducing Nova, a new foundational model. It has also expanded its Amazon Live streaming offering, continued to build its advertising business, held another highly successful Prime Day event and stands at the forefront of AI developments including an expanded investment in Anthropic. Salesforce showcased its Agentforce, or conversational AI agents, during the quarter with rapid initial take-up by customers and revelations of more and more use cases as adoption occurs. Visa, like Amazon, is well-positioned given a strong US consumer, persistent network effects surrounding its business and solid cross-border travel and spending. Early evidence suggests the all-important holiday shopping season has been a good one for retailers.

Holding back performance, three healthcare holdings fell during the quarter. Novo Nordisk has had a disappointing December quarter as it was unable to match supply to demand for its obesity drugs and expectations for its earnings growth proved optimistic. This was compounded by a much-anticipated trial readout for its CagriSema drug where weight loss of ~22% was below the 25% anticipated. Patients could adjust dosages themselves and this likely led to the disappointing data so a new trial has been initiated. In mid-December 2024, it closed the Catalent acquisition for $16.5Bn, which will expand its production capacity.

The shooting of the Insurance division CEO at UnitedHealth, alongside President-elect Trump's comments on PBMs and other 'middle men' in the healthcare industry as he seeks savings for government spending, made for a complicated quarter for UnitedHealth. It also has guided for ~8% growth in 2025, lower than its usual 13-16% EPS growth algorithm. We sold down HCA Healthcare after a big move higher pre-election but retained a small position as the stock became dislocated around policy concerns thereafter. Our newer holding, MercadoLibre, which we initiated in October, fell after its latest quarter results in November as its investment in its ecommerce platform, logistics and credit card business weighed on margins more than investors anticipated. Gross merchandise volume rose 71% while Mercado Crédito gross portfolio rose 77% and these investments support its strong growth trajectory. MercadoLibre is Latin America's largest e-commerce platform with associated logistics, advertising, payment solutions and financial services operations and has a large opportunity to grow meaningfully from an advantaged position.

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 annual returns above 25% 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. A trip to India in December revealed a great deal of progress under the Modi government and this dynamic, young, well-educated population is becoming more relevant to global investors given the opportunities that come with a >1B population that is gaining in wealth.

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 toward 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, 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.

The Magellan High Conviction Trust is carefully positioned to capture investment tailwinds while maintaining a well-diversified portfolio with idiosyncratic exposures. The opportunity from the deployment of AI is a focus across its various dimensions, including the building of infrastructure to support it and then its utilisation to capture new revenues and productivity enhancements. Holdings with some anticipated benefits range from Amazon, Alphabet, Meta and Microsoft to ASML, TSMC and Salesforce, which are all directly involved. Companies that will deploy AI and are advantaged through their data and scale are all these, plus most other holdings in the portfolio. The outlook for capital market activity and regulatory change is promising with exposure to this via Intercontinental Exchange, Morgan Stanley, Brookfield Corp and Visa. The long-term trend of e-commerce taking share of consumer spending supports the thesis for Amazon, Mercado Libre and Booking Holdings while we see ~20%+ annual revenue growth, over 80% gross margins and strong free cash flow continuing to support Novo Nordisk's outlook as it builds supply to meet global demand for treatment of obesity and co-morbidities.

IMPORTANT INFORMATION