

Magellan Global Fund (Hedged)

APIR: MGE0007AU | ARSN: 164 285 661

AS AT 31 DECEMBER 2025

PORTFOLIO MANAGERS

ALAN PULLEN AND CASEY MCLEAN, CFA

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.	The Fund aims to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss. The Fund also aims to deliver 9% per annum, after 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, 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.magellaninvestmentpartners.com

MAGELLAN GLOBAL FUND (HEDGED): KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	BUY/SELL SPREAD	MANAGEMENT AND PERFORMANCE FEES ¹	INCEPTION DATE
-	AUD \$319.5 million	0.07% / 0.07%	1.35% p.a. and performance fee of 10% of dual hurdle excess return [^]	1 July 2013

[^] 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.

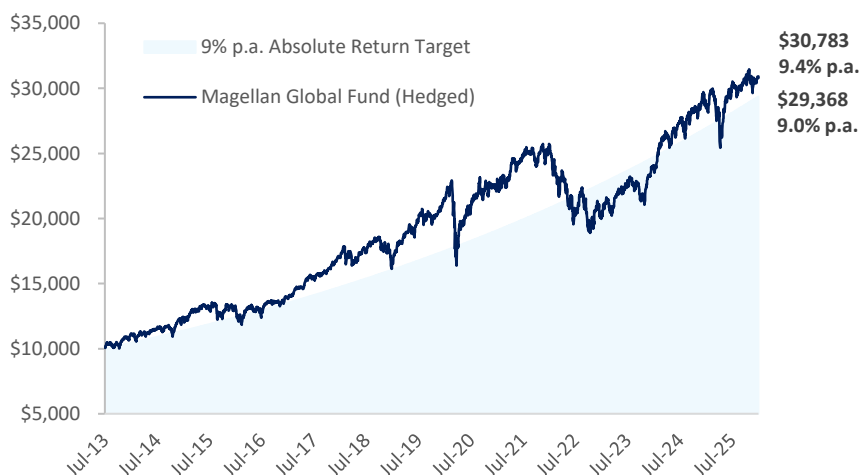
PERFORMANCE²

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	7 YEARS (% p.a.)	10 YEARS (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY*
MGFH	-0.1	0.5	8.2	15.3	6.4	9.0	8.9	9.4	37%
MSCI World NTR Index (A\$ Hedged)*	0.5	3.4	18.4	20.1	12.0	13.8	11.7	12.0	-
Excess	-0.6	-2.9	-10.2	-4.8	-5.6	-4.8	-2.8	-2.6	-

CALENDAR YEAR RETURNS	2025 (%)	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (% part year)
MGFH	8.2	18.3	20.0	-21.8	13.4	5.9	26.9	-0.8	22.8	5.3	6.1	10.5	11.8
MSCI World NTR Index (A\$ Hedged)*	18.4	20.5	21.5	-17.7	23.7	10.3	26.7	-7.4	19.8	10.4	3.8	12.3	16.7
Excess	-10.2	-2.2	-1.5	-4.1	-10.3	-4.4	0.2	6.6	3.0	-5.1	2.3	-1.8	-4.9

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 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.

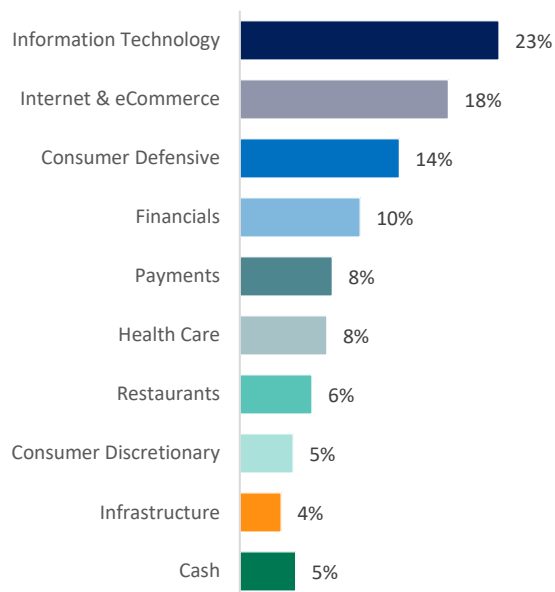
* Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

* 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.magellaninvestmentpartners.com/funds/benchmark-information/

TOP 10 HOLDINGS

STOCK	SECTOR ³	%
Amazon.com	Internet & eCommerce	8.1
Microsoft	Information Technology	7.5
Taiwan Semiconductor	Information Technology	5.3
Alphabet	Internet & eCommerce	4.4
Nestlé	Consumer Defensive	4.1
Visa	Payments	4.1
Mastercard	Payments	4.0
SAP	Information Technology	3.9
Yum! Brands	Restaurants	3.8
Procter & Gamble	Consumer Defensive	3.8
TOTAL:		49.0

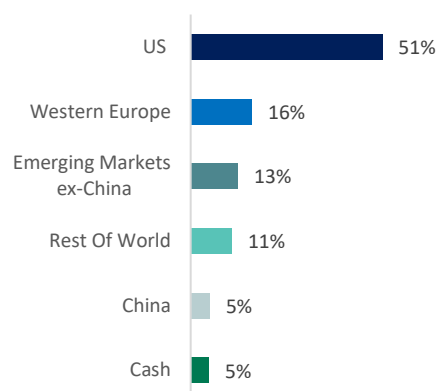
SECTOR EXPOSURE BY SOURCE OF REVENUE³



TOP CONTRIBUTORS/DETRACTORS 1 YEAR⁴

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Taiwan Semiconductor	2.0
Alphabet	1.9
ASML	1.3
TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
Chipotle Mexican Grill	-1.7
UnitedHealth	-1.4
Novo Nordisk	-1.3

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

Global equities increased by 3.1% in the December quarter as measured by the MSCI World Index in USD. The appreciation was more muted in AUD terms, rising by 2.5%. The longest US government shutdown in history (43 days) began and ended during the first half of the December quarter to little market reaction. Despite the shutdown ending, the principal cause, disagreement over the extension of ACA tax credits, remained unresolved as the year drew to a close. There was a brief re-escalation of trade tensions as China announced rare earth export controls, which are critical to many high-end industrial processes. Tensions were temporarily halted as both sides agreed to a one-year pause on respective escalatory policies. The quarter also saw some intra-quarter spike in risk premiums driven by concerns over the sustainability of the AI spend and business model. The Fed eased policy twice at the October and December FOMC meetings. Despite this, long-end US Treasury yields remain little changed as the yield curve steepened. The corporate reporting season was generally favourable. The Healthcare sector led outperformance during the quarter, rising by 10.8%. This was followed by the Materials (+5.2%), Communication Services (+5.1%) and Financial (+4.9%) sectors. In contrast, the Real Estate sector (-2.0%) was the biggest underperformer, followed by the Discretionary (+1.4%) and Tech (+1.5%) sectors.

Japan's Nikkei 225 Index was the best performer during the December quarter, rising by 12.2%, supported by strong corporate earnings and a weaker Yen, while risks regarding deflation faded. Europe's STOXX 600 Index followed, rising by 6.4%, supported by dovish expectations regarding ECB policy support on benign inflation readings. The MSCI Emerging Markets Index rose by 4.7%, followed by the S&P 500 Index (+2.6%). Both China's CSI 300 Index (+0.2%) and Australia's S&P/ASX 200 Index (-1.0%) lagged other major markets.

Over the December quarter, data reflected a gradual slowing in US economic growth. Of particular note were US labour market data, which showed a gradual upward trend in the unemployment rate and continuation in very modest job creation since Liberation Day tariffs were announced in April. Despite a surprising drop in the November US CPI reading, it was not clear whether the rate of inflation was beginning to moderate due to data issues. The one-and-a-half-month US government shutdown delayed/hindered data collection for many agencies, rendering some economic indicators unreliable. Despite the Fed easing twice during the quarter, there was no corresponding rally at the long end of the yield curve. Term premiums appeared to have expanded somewhat as concerns over persistent inflation and the deterioration in the US fiscal position lingered. Additionally, rising Japanese Government Bond yields likely exerted additional pressure on US Treasuries. In China, the outcome of its Fourth Plenum and Central Economic Work Conference indicated the Central Government remained focused on technology investment and industrial policy. The signalling of policy continuity suggested there will be limited scope for broad fiscal stimulus in the nation.

Fund Commentary

The portfolio underperformed the benchmark over the quarter in a market that could be characterised by choppy trading and rotation. Market leadership began to show some signs of shifting away from the AI Mega Cap stocks that had dominated the first three quarters of the year, into areas of the market with fundamental strength and more reasonable valuations.

The largest contributors to the portfolio's performance over the quarter were Alphabet, Amazon and Taiwan Semiconductor Manufacturing Co (TSMC). Alphabet performed strongly over the quarter, driven by earnings that beat expectations and reinforced confidence in the company's ability to leverage its "full stack" approach to lead in the AI era, rather than be disrupted by it. The Search business showed strong momentum with the integration of AI Overviews, and AI Mode accelerated growth by driving higher query volumes and monetisation. Later, the launch of Gemini 3 bolstered sentiment, given its reception as the new benchmark for AI models. YouTube provided further upside with robust performance, as Shorts revenue per watch hour surpassed that of traditional long-form content. Alphabet also announced that it will begin commercial sales of its custom Tensor Processing Units (TPUs), a new revenue stream for the company, and a potential challenge to Nvidia's dominance in the AI hardware category. Amazon outperformed on a combination of better-than-feared US consumption trends in the December quarter and an acceleration in growth and margin expansion for the AWS cloud business. The cloud operations are beginning to see benefits from increased capex spend, with notable deals to provide computing to OpenAI delivered during the quarter. We continue to view Amazon as well-positioned to benefit from structural growth in e-commerce and cloud computing. TSMC performed strongly, closing at record highs on continued strength in demand for semiconductors, including for AI applications, which CEO C.C. Wei described as "insane". TSMC, having cemented their dominant position at the leading edge, have begun mass production of 2nm chips using the new Gate All Around transistor architecture during the quarter. We continue to view TSMC as well-positioned to benefit from rising compute intensity, with the market having an increased appreciation of their agnostic position with respect to potential shifts in market share of AI chip designers.

The largest detractors to the portfolio's performance over the quarter were Microsoft, Netflix and Meta Platforms. After performing strongly earlier in the year on accelerating growth in Azure, Microsoft gave back some of the strong performance. This was driven primarily by moderating optimism on Microsoft's AI positioning via its close relationship with OpenAI due to strong execution at Google and Anthropic. While short-term relative performance will continue to be affected by shifting views on AI positioning, taking a longer-term perspective, we view all of the incumbent cloud providers as winners of the increased adoption of AI applications. Netflix underperformed on a combination of a de-rating from elevated levels and its agreement to acquire Warner Bros Discovery's Studio & Streaming business for an enterprise value of \$83 billion.

Market concerns related to the acquisition include risk of further escalation in the purchase price, execution risks, potential anti-trust hurdles, that the deal reflects a plateauing of engagement, and a less clean near-term outlook. At the current agreed price, and taking a medium-term view, we view the deal as strategically sound and likely to create value over the longer term as streaming continues to take viewer share from linear TV. Meta shares sold off following mixed 3Q25 results. Meta's core advertising business continues to post impressive results, as investments in enhancing content recommendations to drive user engagement and optimise ad targeting bear fruit. However, management doubling down on the investment cycle with uncertain returns from non-core initiatives has weighed on sentiment. While dampening near-term earnings, we expect these investments in superintelligence to either deliver attractive returns or be significantly scaled back.

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

Outlook and view from the Portfolio Managers

We maintain a constructive outlook for equity markets with economic growth remaining resilient, driving strong corporate earnings growth led by the US.

The US economy will benefit from a three-pronged tailwind of fiscal policy, monetary policy and deregulation. Recent inflation releases have surprised to the downside, and increased noise regarding AI-related job losses will give the Fed ammunition to continue to cut rates. Fiscal policy is headlined by the OBBB, which is set to deliver significant tax cuts in 2026. On some estimates this could amount to as much as \$800 for every taxpayer in the US. While some of this windfall will be consumed by higher electricity and health insurance costs, this is clearly a tailwind for the US consumer.

This level of stimulus is rare outside of recessionary periods. When coupled with the AI investment boom, this is driving consensus expectations for a strong 13-14% earnings growth in 2026, well above the long-run averages of 7-8%. This level of earnings growth supports the elevated valuations, especially in a period of accommodative monetary policy.

Consistent with this outlook, we are taking the maximum permitted level of risk for the portfolio, with this risk level 20% below that of the overall market. We remain exposed to the highest-quality players in the AI value chain, key financial stocks that will benefit from equity market strength and a range of high-quality consumer franchises designed to capture both the strength in the high-income consumer as well as the potential trade down of lower-income consumers.

We are, however, cognisant that there is no shortage of risks.

Key geopolitical events that could affect markets in 2026 include the selection of the Fed Chair, the Supreme Court ruling on the legality of tariffs and events in Venezuela. A dovish selection for the Fed Chair could increase the prospect of more or deeper interest rate cuts, which would generally be positive for equity markets. However, it also gives rise to the risk the market may begin to question the independence of the Fed, which could steepen the yield curve; this is generally negative for equities, and long-duration growth stocks or bond proxies in particular.

While it is clear that there is still an enormous amount of AI investment ahead, there is also some risk that the growth will slow given the constraints regarding power, labour and materials. Additionally, the investment surge is increasingly reliant on debt funding, with massive bond issuances expected in 2026. Any impediments in the credit system could also affect the pace of the spend. This risk is amplified by the fact that the US economy is increasingly reliant on this growth driver, with Harvard economist Jason Furman estimating that AI was responsible for 92% of US GDP growth in the first half of 2025 and without AI the GDP growth would have been just 0.1%.

We manage these risks by maintaining a balanced portfolio with strategic allocations to defensive, high-quality companies, which we believe should outperform in a market drawdown. The prospective returns from these defensive holdings have become increasingly attractive as they have underperformed despite their fundamentals remaining robust.

We remain confident that our disciplined investment process will enable the portfolio to achieve its dual objectives: delivering attractive risk-adjusted returns over the medium to long term while reducing the risk of permanent capital loss. The fund aims to deliver 9% per annum net of fees over the economic cycle. Our portfolio management is supported by a talented team of analysts dedicated to identifying the highest-quality companies and the most compelling investment opportunities on a global scale.

Stock Story: Hermès

(Hannah Dickinson – Senior Head Franchises and Healthcare)



Hermès was founded in Paris in 1837 as a maker of harnesses and saddles for Europe's horse-drawn elite. From the outset, the company was defined by functional excellence and craftsmanship rather than fashion. Its first decisive strategic shift came with the rise of the automobile, which structurally reduced demand for equestrian equipment. Rather than defend a declining end market, Hermès redeployed its leather expertise into luggage and travel goods, applying the same standards of durability and quality to a new era of mobility.

That early pivot is instructive. Hermès adapted to technological change without diluting its identity, a pattern that has repeated over nearly two centuries. Today, the group is one of the most profitable companies in global luxury, with activities spanning leather goods, ready-to-wear, silk, jewellery, watches and homewares. Leather goods remain the economic engine, accounting for the majority of profits, while the broader portfolio reinforces the maison's cultural relevance and desirability. Despite operating more than 300 stores globally and employing over 20,000 people, Hermès continues to behave less like a conglomerate and more like a craft maison, prioritising long-term brand equity over near-term growth.

This mindset underpins why we find Hermès such a compelling business. Its brand equity is built not on seasonal fashion or loud marketing but on function, heritage and longevity. Many of its most recognisable products, including the Birkin and Kelly bags or the silk carré, have remained largely unchanged for decades.

This continuity reduces fashion risk, extends product life cycles and reinforces trust, advantages that are rare at scale in luxury.

Hermès' vertical integration further strengthens this position. The group controls almost every step of its value chain, from sourcing raw materials to tanning, design and manufacturing. This control protects quality, limits the ability to increase supply rapidly and creates barriers that are difficult for competitors to replicate. Importantly, it also allows Hermès to invest steadily in artisanal capacity, even when industry conditions are challenging, without compromising standards or margins.

Over time, this discipline has translated into exceptional pricing power. Hermès has consistently raised prices across cycles without undermining demand, reflecting both brand strength and deliberate supply constraints. The credibility of this pricing power is reinforced by the secondary market.

Data consistently shows Hermès products retaining, and in many cases exceeding, their original retail price, with average resale values meaningfully above purchase price for flagship bags. In effect, the resale market validates Hermès' primary pricing strategy and reinforces consumer confidence in the brand as a long-term store of value.



Image: Adobe stock

Crucially, Hermès does not attempt to clear excess demand. Production growth is constrained by artisan training timelines and capacity discipline, not by the level of customer interest. Waiting lists are a feature, not a failure, of the model. This ensures discounting is avoided and that demand consistently exceeds supply, protecting both margins and brand equity.

In a well-known book called *Kapferer on Luxury*, Jean-Noël Kapferer describes the central dilemma facing luxury brands: how to grow while preserving rarity and exclusivity. Many brands resolve this tension poorly, expanding volumes or distribution too aggressively during strong periods and eroding their long-term positioning in the process. Hermès stands out as one of the few large luxury companies that has solved this dilemma strategically. Growth is achieved through incremental capacity additions, selective category expansion and pricing rather than through volume acceleration. The company accepts slower short-term growth in exchange for durability and compounding over decades.

Every enduring investment case has areas of debate, and for Hermès this is valuation. The company trades at a significant premium to global luxury peers on most metrics, despite operating with deliberately constrained volume growth and exposure to discretionary consumer demand. For some investors, this premium appears difficult to justify, particularly when compared with peers that offer higher near-term growth or broader category exposure.

We believe the premium reflects structural characteristics that are both durable and rare. Hermès has delivered exceptional consistency in returns on capital and earnings through cycles, underpinned by disciplined supply, minimal discounting and limited fashion risk. This reduces downside volatility and supports higher through-cycle multiples. Family ownership and a relatively low free float further reinforce this dynamic, creating a form of scarcity at the equity level. The controlling shareholders' long-term

stewardship limits the risk of value-destructive strategic decisions, while the limited availability of comparable assets with similar quality, durability and governance characteristics provides ongoing valuation support.

The benefits of the Hermès model have been particularly evident through the recent challenging period for the luxury sector. Slowing global demand, softer Chinese consumption and inventory pressure have led to revenue declines and margin contraction for many peers. Hermès has stood apart. Growth has moderated but remained positive, margins have proven resilient, and inventory discipline has been maintained. The company's exposure to the highest-income consumers, combined with its scarcity-driven strategy, has insulated the business from the more cyclical elements of aspirational luxury demand.

Ultimately, Hermès is not simply a luxury brand. It is a structurally advantaged business with rare durability, built on craftsmanship, restraint and long-term thinking. That combination has allowed it to protect brand equity, sustain pricing power, and compound value across cycles, supporting its place as a high-quality, long-duration holding within a global equity portfolio.

IMPORTANT INFORMATION

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