Magellan Global Opportunities Fund

ARSN: 682 380 892

MAGELLAN ASSET MANAGEMENT

MAGELLAN GLOBAL OPPORTUNITIES FUND - CLASS A UNITS I APIR: MGE5500AU

AS AT 31 DECEMBER 2024

PORTFOLIO MANAGER	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 outperform the MSCI World Net Total Return Index (AUD) net of fees over periods of three years or longer.	A portfolio of 20-40 which we believe can achieve sufficient diversification to ensure the Fund is not overly correlated to a single company, or to industry specific or macroeconomic risks. The Fund aims to invest in companies that have sustainable competitive advantages which translate into returns on capital in excess of their cost of capital for a sustained period of time. Cash and cash equivalents exposure between 0 - 5%.	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 OPPORTUNITIES FUND – CLASS A UNITS: KEY PORTFOLIO INFORMATION

FUND SIZE	BUY/SELL SPREAD	MANAGEMENT AND PERFORMANCE FEES[1]	INCEPTION DATE[2]
AUD $1.6 million	0.10% / 0.10%	0.75% p.a. and performance fee of 10% of excess return^	1 January 2022

^ Performance fees are 10% of the excess return of the units of the Fund above the MSCI World Net Total Return Index (AUD) over each Calculation Period.

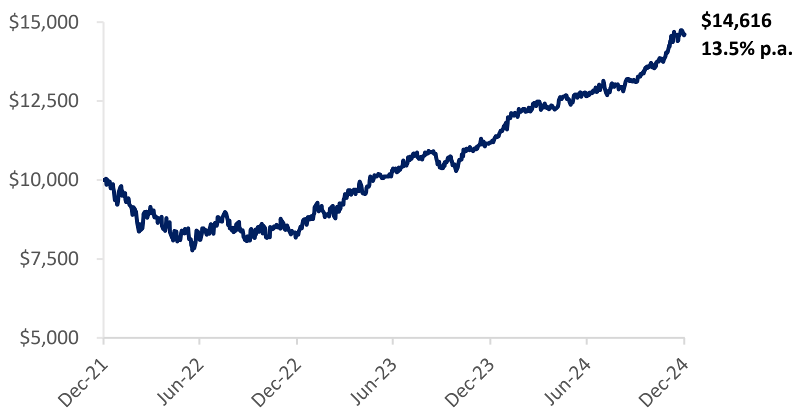
PERFORMANCE[3]

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
MGOF	4.0	11.6	30.7	13.5	13.5
MSCI World NTR Index (AUD)[4]	2.5	11.9	30.8	12.2	12.2
Excess	1.5	0.3	-0.1	1.3	1.3

CALENDAR YEAR RETURNS	CYTD (%)	2023 (%)	2022 (%)
MGOF	30.7	35.2	-17.3
MSCI World NTR Index (AUD)[4]	30.8	23.0	-12.2
Excess	-0.1	12.2	-5.1

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.

[1] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST. Effective 1 July 2024, the management fee was reduced from 1.05% p.a. to 0.75% p.a. and the performance fee changed from '12.5% of the excess return of the Fund above the "Absolute Return" hurdle of 10% p.a.' to '10% of the excess return of the Fund above the MSCI World Net Total Return Index (AUD)'.

[2] The Fund was established on 1 January 2022 as an unregistered managed investment scheme. The Fund was registered with ASIC as a managed investment scheme in December 2024 and became available to retail investors on 23 December 2024.

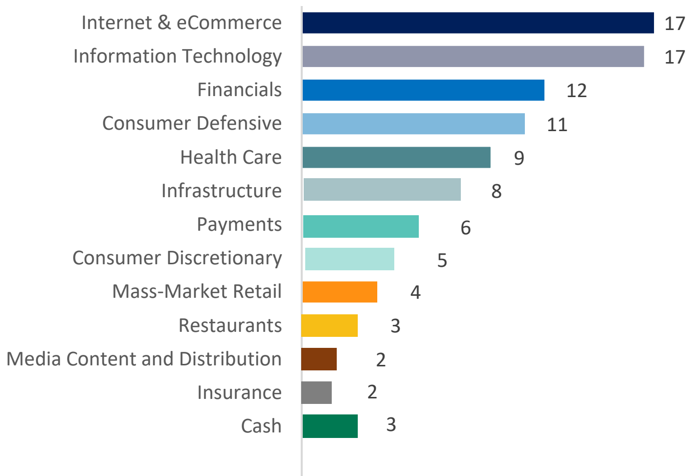
[3] Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.

[4] 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]	%
Microsoft Corporation	Information Technology	7.5
Mastercard Inc	Payments	6.1
Amazon.com Inc	Internet & eCommerce	5.9
Alphabet Inc	Internet & eCommerce	5.6
Nestlé SA	Consumer Defensive	4.7
Taiwan Semiconductor - SP ADR	Information Technology	4.3
Lloyds Banking Group Plc	Financials	4.2
Reckitt Benckiser Group	Consumer Defensive	4.1
Dollar General Corporation	Mass-Market Retail	4.1
Eversource Energy	Transmission and Distribution	4.0
	TOTAL:	50.5

SECTOR EXPOSURE BY SOURCE OF REVENUE[5]

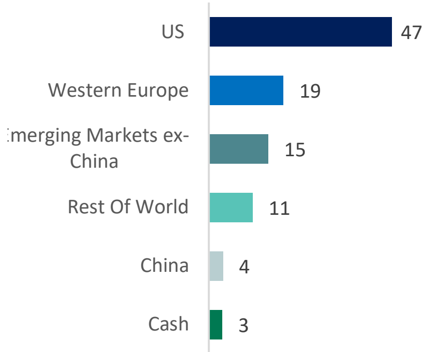


TOP CONTRIBUTORS/DETRACTORS 1 YEAR[6]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Taiwan Semiconductor	3.5
Meta	3.5
Amazon	3.4

TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
Dollar General	-1.5
Nestle	-0.8
Diageo	-0.1

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[5]



[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 in response to slowing, but still positive, growth. 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 focused 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 delivered performance that was broadly in line with overall markets for the quarter. Key contributors included Amazon, Netflix and Booking Holdings. Amazon performed well on increased confidence in its ability to continue to drive operating leverage in its North American retail business and improved positioning of AWS in AI. Netflix benefited from continued strength in the new subscribers and optimism around near-term growth given the success of recent Live Events and a strong content slate. For Booking, outperformance was driven by a recovery in European leisure demand, ongoing share gains and an increased focus on fixed cost optimisation under its new CFO. Booking's profitability and business quality continue to improve owing to its shift towards higher-margin, direct booking channels and a lower reliance on uneconomic performance marketing.

Key detractors included American Tower, AIA and Eversource. American Tower was negatively affected by its exposure to higher interest rates and inflation and the impact of a higher USD on its international profits. AIA's exposure to China and Hong Kong has seen its share price negatively affected by concerns about the Chinese macro environment despite solid operational performance. Eversource was affected by higher US interest rates.

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

Outlook

President-elect Trump's victory has shifted the balance of risks for equity markets; while his low tax, low regulation agenda means a significant earnings slowdown is less likely, this is somewhat balanced by the risk of higher inflation and interest rates as well as potential policy uncertainty. Overall, the former (a significant economic slowdown) would be the worse outcome for markets and is now a lower probability scenario, albeit not one that can be entirely ruled out.

Market valuations remain full. While not extremely stretched there is little room for adverse economic, political or geopolitical outcomes. Consequently, we maintain a conservative portfolio positioning for the time being. Nonetheless, over the longer-term we remain confident in the quality of the companies in the portfolio. These companies' strong competitive advantages add to their resilience in any downturn and in our view, sees them well placed to deliver strong earnings, and share price, growth over the long term.

Stock Story - Netflix

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

NETFLIX

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.

IMPORTANT INFORMATION

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