

# Quarterly Stocks in Focus

## Magellan Sustainable Fund (TICKER: MSUF)

AS AT 30 SEPTEMBER 2024

**Alphabet** Alphabet generated US\$307 billion in sales in fiscal 2023, the majority from Google Search, which represents about 90% of the global search market ex-China. Alphabet's Android is the dominant mobile operating system as it has more than 3 billion devices and over 80% global market share. The majority of Android devices are preloaded with Google's services. Nine of these – Search, Maps, YouTube, Chrome, Android, Google Play, Gmail, Drive and Photos – service more than one billion users a month.

### Brands



**amazon** Amazon.com is a cloud-computing and retail giant that generated almost US\$575 billion in revenue in fiscal 2023. Amazon's AWS segment, which generates the majority of group profit, is the leading global hyperscale cloud platform. The Retail segment, which generates the majority of revenue but around a third of group profit, is a dominant e-commerce platform comprising a commerce marketplace, third-party fulfilment and logistics services, a digital advertising business, and subscription services.

### Brands



**BOOKING HOLDINGS** Booking Holdings generated US\$21.4 billion in revenue in fiscal 2023. Booking Holdings is the world's leading provider of online travel and related services, provided to consumers and local partners in more than 220 countries and territories through five primary consumer-facing brands: Booking.com, Priceline, Agoda, KAYAK and OpenTable, as well as through a network of subsidiary brands including Rocketmiles, Fareharbor, HotelsCombined, Cheapflights and Momondo.

### Brands



**Meta** Meta Platforms is the world's largest social network platform with more than 3.2 billion users touching at least one of its services – Facebook, Instagram, WhatsApp and Messenger – each day. Meta generated more than US\$134 billion in revenue in fiscal 2023, the vast majority of which came from selling advertising, primarily on user 'Feeds'.

### Brands



**Microsoft** Microsoft is the world's largest software company, with US\$212 billion of sales in fiscal 2023. As well as being a leading provider of business applications, infrastructure software and PC operating systems, Microsoft has established itself as a global leader in cloud computing outside China. Companies around the world are shifting to the cloud and Microsoft is a beneficiary of this major trend. The company also owns consumer franchises in areas like search and gaming.

### Brands



**Nestlé** In 2023, Nestlé generated approximately 93 billion Swiss francs in revenue, making it the world's largest food and beverage manufacturers. The company derives more than half of its operating profit from defensive, structural growth categories such as branded coffee and pet food where it retains leading market share relative to peers in most major geographies. The company owns 31 mega-brands, such as Nescafé, Nespresso, Purina, Coffee mate, Maggi, and KitKat, each of which generate global retail sales of more than 1 billion Swiss francs every year.

### Brands



**reckitt** Reckitt is a UK-based, multinational consumer-packaged-goods company that focuses on infant formula, consumer health, hygiene, and home categories. The company has operations in more than 60 countries and sells products in another 140 countries. In 2023, Reckitt generated £14.6 billion in revenue. The company competes selectively in high-margin, fast-growing category niches and derives most of its earnings from about 20 'power brands' that include Lysol and Dettol home disinfectants and Finish dishwashing tablets.

### Brands



**SAP** SAP is a leading provider of enterprise application software with over €31 billion of revenue generated in 2023. SAP's software is used to run the businesses of over 400,000 customers around the world, including over 90% of the Forbes Global 2000. The company has expanded into cloud software, which contributes nearly half its total software revenue, and this is expected to rise as customers modernise their digital technology.

### Brands



**tsmc** Taiwan Semiconductor Manufacturing Company Limited (TSMC or Taiwan Semiconductor) is the world's largest semiconductor manufacturing company with a virtual monopoly in the fabrication of the most advanced chips such as those powering Generative AI and high-end smart phones. The company generated US\$70bn in revenue in 2023.

### Brands



**UNITEDHEALTH GROUP** UnitedHealth Group (UHG) is the leading managed care organisation in the US, with key positions in health insurance, healthcare services and pharmacy benefits management and generated US\$371.6bn in revenue in 2023. UHG's vertically integrated model and its ability to gain unique insights into industry-wide healthcare expenditure places it in good stead to deliver the most efficient and effective healthcare delivery amongst peers and positively address rising US healthcare costs.

### Brands



# MAGELLAN

Magellan Asset Management Limited ('Magellan') are experts in global investing and invest in a portfolio(s) of outstanding global companies with the aim to grow and safeguard the wealth of clients. Magellan has a highly experienced team of investment professionals that oversees over A\$38 billion\* in clients assets.

\*As at 30 September 2024

## Why global investing?

A key question for many Australian investors is whether or not they should have the vast majority of their equity investments in Australian shares when 97% of the world's listed companies are found overseas. Clearly, by having limited exposure to global equities, Australian investors are restricting their investment opportunities. To benefit from the key investment trends that are likely to prevail over the next decade and beyond, we believe investors will need to boost their exposure to global businesses. Some of the key trends that we expect to be powerful forces in the years ahead include cloud computing, digital platforms, e-commerce, the cashless economy, the reach of global brands, the Chinese consumer, driverless cars, healthcare for an ageing population and artificial intelligence.

At Magellan, we invest in a concentrated portfolio of what we consider as the world's best businesses that are positioned to thrive in the years ahead.

## PROTECTING INVESTOR CAPITAL

At Magellan, we believe that conservative investors sleep well. All our investments are made in accordance with our investment philosophy, that is, to invest in outstanding businesses that have attractive underlying business economics because they are protected by sustainable long-term competitive advantages, or in Warren Buffett's words, an "economic moat". In our opinion, investing in terrific businesses at appropriate prices is a low-risk investment style and will produce more certain investment returns over time than many other approaches. The core of our investment philosophy is to minimise the risk of a permanent capital loss. We seek to construct our investment portfolio with a meaningful margin of safety and with risk characteristics that we believe should enable the portfolio to have materially less downside in the event of large market corrections.

## Magellan's Sustainable Fund

Magellan's Sustainable Fund provides investors with a high quality, absolute-return focused portfolio with materially lower carbon factor risk than global markets. Magellan believes it is highly likely that political and societal efforts to address climate change risks, as well as technological innovation, will lead to material adverse and discontinuous impacts to large swathes of industries associated with greenhouse gas emissions.

### The Fund's proprietary process implements the following overlays:

1. Company emissions cap of around 300 tonnes per US\$1m revenue. The cap is set having regard to globally agreed climate goals (i.e. maximum 2 degrees Celsius temperature increase).
2. Portfolio emissions cap of around one-third of The MSCI World Index.
3. Exclusion of any company engaged in the extraction of fossil fuels, or have material exposure to energy generation using fossil fuels, or material exposure to transportation or storage of fossil fuels. Companies whose core product is inextricably linked to fossil fuels and faces an existential threat from climate change are also excluded.

The caps and exclusions applied by the Magellan Global Sustainable Strategy set a very high standard compared to global equities benchmarks. Magellan believes this is appropriate given the magnitude of the risks associated with climate change and the ambitious nature of globally agreed climate goals.

Magellan's investment team conducts detailed due diligence on companies' exposures under the caps and exclusions to verify their low carbon status. As a signatory of CDP's climate change program, MFG has access to detailed climate change reports and data on companies. Magellan is a signatory of the United Nations Principles for Responsible Investment (UNPRI). Magellan is a member of the Investor Group on Climate Change (IGCC) and the Net Zero Asset Managers initiative (NZAMI).



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