

Magellan High Conviction Fund

ARSN: 164 285 947



MAGELLAN HIGH CONVICTION FUND CLASS A | APIR: MGE0005AU

MAGELLAN HIGH CONVICTION FUND CLASS B | APIR: MGE9885AU

AS AT 31 MARCH 2025

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 Fund may, from time to time, hedge some or all of the capital component of the foreign currency exposure of the fund arising from investments in overseas markets back to Australian Dollars.

INVESTMENT RISKS

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.magellangroup.com.au.

MAGELLAN HIGH CONVICTION FUND: KEY PORTFOLIO INFORMATION

CLASS	FUND SIZE	BUY/SELL SPREAD	MANAGEMENT AND PERFORMANCE FEES ¹	INCEPTION DATE
A	AUD \$152.1 million	0.12% / 0.12%	1.50% p.a. and performance fee of 10% of excess return [^]	1 July 2013
B	AUD \$36.8 million	0.12% / 0.12%	0.78% p.a. and performance fee of 20% of excess return ^{^^}	15 November 2017

[^] 10.0% of the excess return of Class A Units of the Fund above the Absolute Return Performance Hurdle of 10% per annum. Additionally, Performance Fees are subject to a high water mark.

^{^^} 20.0% of the excess return of Class B Units of the Fund above the Absolute Return Performance hurdle of 10% per annum. Additionally, Performance Fees are subject to a high water mark. The performance fee for Class B Units is subject to a cap of 2.22% per annum.

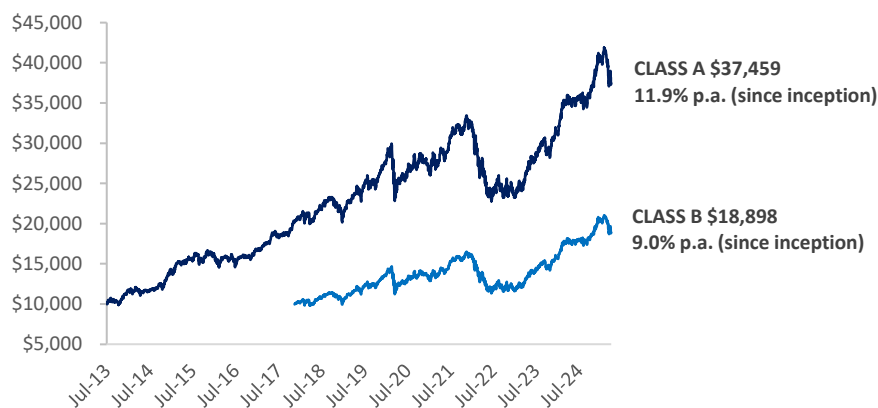
PERFORMANCE²

	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 [*]
Magellan High Conviction Fund - Class A	-7.3	-6.8	4.3	11.0	8.7	9.1	9.5	11.9	63%
Magellan High Conviction Fund - Class B	-7.2	-6.6	4.3	11.6	9.3	9.5	-	9.0	28%

	CYTD (%)	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017* (%)	2016 (%)	2015 (%)	2014 (%)	2013 (part year)
Magellan High Conviction Fund - Class A	-6.8	28.1	34.5	-27.8	20.8	-2.4	29.6	3.4	23.3	3.5	13.6	19.8	17.7
Magellan High Conviction Fund - Class B	-6.6	28.1	35.5	-27.3	21.1	-1.9	29.2	3.3	1.0	-	-	-	-

Past performance is not a reliable indicator of future performance. *Class B part year return, inception date 15-Nov-2017

PERFORMANCE CHART GROWTH OF AUD \$10,000²



Past performance is not a reliable indicator of future performance.

FUND CHARACTERISTICS³

	3-YEAR	AVERAGE	HIGH	LOW
Cash Weight		3.8%	18.4%	1.0%
Number of Stocks		15	19	10
Hedging Weight		1.3%	10.2%	0.0%

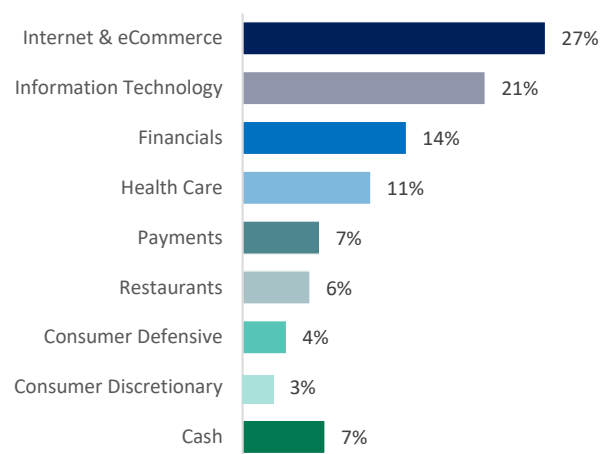
¹ Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

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.

³ 3 year average cash weight and hedging ratio are calculated using month end values over the period.

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

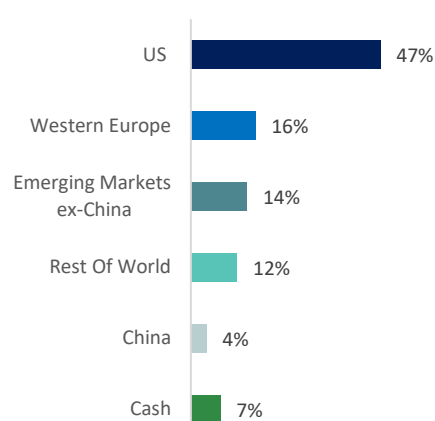
SECTOR EXPOSURE BY SOURCE OF REVENUE⁴



TOP CONTRIBUTORS/DETRACTORS 1 YEAR⁵

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Brookfield Corporation	2.1
Visa Inc	1.8
Intercontinental Exchange Inc	1.7
TOP 3 DETRACTORS	CONTRIBUTION TO RETURN (%)
ASML Holding NV	-2.3
Novo Nordisk ADR	-2.0
Ulta Beauty Inc	-1.9

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE⁴



TOP 5 HOLDINGS (ALPHABETICAL ORDER)

STOCK	SECTOR ⁴
Amazon.com Inc	Internet & eCommerce
Chipotle Mexican Grill Inc	Restaurants
Meta Platforms Inc	Internet & eCommerce
Microsoft Corporation	Information Technology
Visa Inc	Payments

⁴ 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.

⁵ 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

Uncertainty about policy actions by the US Administration increased through the quarter. Sectors that had led the market higher in the past year or two saw fairly aggressive profit taking and a rotation to safer/defensive or unloved stocks and sectors. This saw the MSCI World Index drop 2.7% led lower by declines of 12.2%, 11.2% and 4.9% in Information Technology, Consumer Discretionary and Communication Services respectively. On the other side, Energy rose 9.2% and Utilities rose 6.1%, both sectors which lack opportunities that exhibit high returns and high growth and thus are not represented in the High Conviction strategy. The odds of a recession in the US, and this then also affecting other regions, rose as the quarter progressed.

Fund Commentary

After a strong start in January, the High Conviction Strategy fell ~7% in AUD terms in March to be down for the quarter. Over the quarter, strength in Visa, Mercado Libre, Intercontinental Exchange and HCA Healthcare was evident, but insufficient to offset declines elsewhere. Stocks that contributed most to the decline (for the quarter) were Salesforce, Alphabet, Chipotle, Amazon and Taiwan Semiconductor. Meta was weakest in March, alongside Novo Nordisk and Amazon. There has been no material company news from any that would affect the investment thesis over the years ahead and we continue to view these businesses as advantaged with strong growth paths. Rather, it seems a flight to safety, a potential deterioration in the US economic outlook given disruptive policies, and a sharp softening of many economic data points have also driven a shift by investors to move some global equities allocations away from the US.

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

Outlook

The High Conviction strategy has been actively researching opportunities in Europe and Asia since 2024 and deployed more capital to these areas where they meet our high threshold for quality and valuation. It also took some profits and increased cash as we anticipate volatility will continue and opportunities to enhance long-term returns will appear. The strategy continues to be invested in a selection of diverse but high-quality companies with industry tailwinds, innovative cultures and well-above-average returns on capital.

The Future of Transport: Innovations transforming how we move

(Claire Britton, Investment Analyst)



The implications are enormous. While these innovations promise greater efficiency, sustainability and convenience, they pose disruptive challenges to traditional transport sectors and adjacent industries. And like every major technological shift, there will be winners and losers. Investors who spot the right opportunities early stand to make the most, while those who ignore these trends will miss the bus.

The rise of electric vehicles: A market on the move

The transition from internal combustion engine (ICE) vehicles to electric vehicles (EVs) is no longer a question of "if" but "when". Governments worldwide are setting targets to phase out the sale of new ICE vehicles, with Norway leading the way and set to achieve this goal in 2025. The Australian Capital Territory is aiming for 2035. Automakers from Ford and Volkswagen to Mercedes Benz and Tesla are investing billions into the technology.

For investors, the EV market is often synonymous with Tesla, but this market opportunity is much broader than just the automakers. Battery manufacturers are critical participants in the industry, helping to meet the growing demand for longer-lasting and faster-charging batteries. Meanwhile, charging infrastructure is a crucial adjacent industry to support the adoption of EVs globally, while electricity utilities will also play an instrumental role in this transition.

The era of autonomous vehicles: A reality, not science fiction

For years, self-driving cars were a concept confined to sci-fi movies. Today, they're real, and companies like Waymo (owned by Alphabet), Tesla, Wayve, BYD and a host of others are advancing at a rapid pace.

Accomplishing self-driving has been a decades-long endeavour with two key 'problems' to solve – the software problem (aka the 'brain') and the hardware problem (aka the 'eyes and ears'). Solving the software problem has necessitated the development of a complex computing system with the ability to process information and make the right decisions under unique driving scenarios in an ever-changing external environment – an excruciatingly difficult task.

Meanwhile, solving the hardware problem has required innovation in sensor technology (including camera, lidar¹, radar² and audio receivers) to bring costs down from astronomically high levels³.

We are now closer than ever to solving both problems. Take industry leader Waymo for instance. Waymo already operates fully autonomous fleets of robotaxis in Phoenix, San Francisco and Los Angeles (and is expanding to 10 more cities, including Tokyo, in 2025). It is serving over 200,000 fully autonomous paid rides every week – 20x growth in less than two years. Importantly, Waymo's technology is already safer than human drivers with 78% fewer injury-causing crashes⁴. This safety record is a critical factor in achieving regulatory approvals in future markets.



The implications? Enormous. Once freed from manual driving responsibilities, passengers in autonomous vehicles (AVs) have time to allocate as they please – likely benefiting entertainment and social media platforms like Netflix, Spotify, YouTube and Meta. Owning an AV means it could act as your personal chauffeur, ferrying family members to work or school or from one extra-curricular activity to the next, freeing up yet more time. Meanwhile, fleets of robotaxis will not only disrupt the taxi and ridesharing market operators but potentially forms of public transport too.

As robotaxi adoption rises, personal car ownership could decline, hitting traditional automakers, dealers, car insurers and maintenance and repair services. Real estate (particularly parking) will be repurposed, while the value of residential property further from cities may rise. AVs will result in improved safety and fewer road accidents, affecting towing services and emergency services. As the hardware costs continue to fall and the software capabilities continue to improve, we believe mass adoption and commercial viability of AVs is inevitable.

Urban air mobility and drones: Investing in the skies

If roads become too congested, why not take to the skies? That's exactly what companies in the Urban Air Mobility (UAM) sector⁵ are planning. Delivery drones, flying taxis and cargo aircraft are set to reshape logistics and transportation.

¹Light detection and ranging

²Radio detection and ranging

³When Waymo first entered the market, a single lidar sensor cost c. \$75,000, and Waymo needed several for each car. By 2017 it had reduced this cost by 90%.

⁴Source: <https://waymo.com/safety/impact/>

⁵Urban Air Mobility is the use of small, electric aircraft to transport people and cargo in cities. UAM aircraft are small, highly automated, and can take off and land vertically.

In the case of drone delivery, your dinner, medications and last-minute gifts could be at your doorstep in minutes, disrupting gig economy workers, as well as how we engage with brick-and-mortar retail. Companies like Wing (owned by Alphabet) and Amazon Prime Air are pioneers in drone logistics and stand to benefit if cost efficiencies can be achieved, particularly within last-mile delivery where over half of the total supply chain costs can often lie. The second-order effects could see reduced road congestion and infrastructure needs at the expense of greater air traffic.

Flying taxis and cargo aircraft (with vertical take-off and landing) are the next extension of this technological breakthrough, with several emerging companies already servicing this market. Major airlines, automotive manufacturers and tech companies are investing in the technology.



Hyperloop and high-speed rail: The long shot bets

While self-driving cars and drones are already in development, high-speed rail and hyperloop technologies are more speculative. The theoretical Transatlantic Tunnel is a high-speed, underwater rail project that would connect New York and London in under an hour, using vacuum tube technology and hyperloop trains to reach speeds of over 5,000 kph by eliminating air resistance.

For investors, this is a high-risk, high-reward play. If a company successfully commercialises hyperloop technology, it could disrupt air travel and even freight and trucking industries. However, there are massive regulatory and infrastructure challenges ahead. Investing in hyperloop is like investing in early-stage space travel, or perhaps supersonic or hypersonic travel – exciting, but with significant uncertainty.

Innovation will continue to make transportation safer, faster, more convenient and more reliable. And with this innovation will come disruption. As investors of client funds, our focus is on identifying where such impactful disruption creates opportunities for attractive returns.



IMPORTANT INFORMATION

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