Magellan
Global
Equities

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2026 Annual Investor Letter

Magellan Global Opportunities Fund

Dear Investor,

Welcome to our 2026 investor letter. Last year I introduced you to the Fund and the investment philosophy that underpins it. This year I want to share our perspective on what has been a challenging, and frankly quite unusual, year for markets, and why we believe the current environment is setting up some of the most attractive opportunities we have seen in years.

There is no avoiding it: AI dominated markets this past year. Global equity markets surged to record highs over the past year, and there was some genuine good news behind this, with economic activity proving resilient, notwithstanding geopolitical shocks and higher energy prices. However, the bulk of the market's return has come from a narrow group of semiconductor companies and other real and perceived beneficiaries of data centre expansion. What began as the market sensibly pricing the genuine opportunities (and threats) of AI has, in our view, tipped into speculative territory. Prices are increasingly being driven by momentum, passive flows and short-term retail participation, often through leveraged bets, with prices chasing prices rather than fundamentals. Valuations for the market favourites now assume that record levels of profitability will not just be sustained but keep expanding, while inflation, geopolitics and rising government debt seem to matter little to markets right now.

This year has been challenging for fundamental quality investing. Momentum has dominated, and even some seasoned quality investors are throwing in the towel, with a prominent UK investor focused on quality companies recently announcing they are now incorporating momentum into their investment process. Rest assured, we will not be joining them.

While markets can remain irrational for long periods, and we make no attempt to call the timing of any turn, our philosophy is unchanged. We invest in high-quality businesses, those with strong and durable competitive advantages. We insist on paying less than our assessment of intrinsic value. And we are long-term investors, focused on where a business will be in three, five and ten years' time rather than the narrative of the day. We consider ourselves part owners of these businesses, not renters of a trade. This philosophy has demonstrated its ability to outperform over the long term, and we are confident it will continue to do so. In fact, the further short-term flows push share prices away from fundamental value, the greater the opportunities we have to deliver outperformance for clients.

Momentum-driven markets becoming dislocated from fundamentals is nothing new. We saw it during the dot-com bubble and the US housing bubble, amongst other examples. History is consistent on the outcome for those who chase crowded, richly priced market leaders late in their run. And it is equally clear what happens on the other side: quality companies purchased at reasonable prices served investors incredibly well through those periods and, in our view, will continue to do so.

Be fearful when others are greedy, as they say. I say, "Be careful". That caution applies more broadly than many realise. Broker estimates suggest AI-linked companies now represent 40–50% of the entire US market, with Semiconductors alone having grown from around 5% of the US market a few years ago to roughly 20% today. This means even investors in broad market index funds now carry significant exposure to this theme.

The good news is that the narrowness of the market's leadership has left many wonderful businesses neglected. Quality franchises outside the favoured themes are trading at valuations that imply expected returns among the most attractive we have seen since the post-Covid period. This is where our attention is focused. We are patiently adding to businesses we expect to steadily compound earnings, cash flows and value for many years to come, companies whose worth is undiminished simply because the market is looking elsewhere.

The past year has been challenging in relative terms but the strategy has delivered satisfactory returns over the past three years and since inception, including double-digit absolute returns. Looking ahead, we see both tailwinds and headwinds. Resilient economic activity and the genuine productivity benefits as AI is adopted across the broader economy are clear positives. Against these sit stretched valuations in the market's leadership, still-elevated inflation, and the risk that speculative excess unwinds quickly, as it has in the past. Few of the companies we own will double in a month. However, we believe the portfolio is well-positioned to continue to compound your wealth steadily and patiently over the years ahead.

Building our clients' wealth over the long term is our focus. Thank you for your continued trust.

Yours sincerely,

Alan Pullen

Portfolio Manager, Magellan Global Opportunities Fund

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