

# Magellan Global Equities Fund (Managed Fund)

ARSN: 603 395 302

Ticker: MGE

## Fund Facts

Portfolio Manager	Lead Portfolio Manager: Hamish Douglass Co-Portfolio Manager: Arvid Streimann		
Structure	ASX-quoted Global Equities Fund		
Inception Date	2 March 2015		
Management Fee <sup>1</sup>	1.35% per annum		
Fund Size	AUD \$1,748.6 million		
Distribution Frequency	Six Monthly		
Performance Fee <sup>1</sup>	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (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.		
iNAV tickers	Bloomberg Thomson Reuters IRESS	MGE AU Equity MGE.AX MGE.AXW	MGEIV Index MGEAUiv.P MGEINAV.ETF

<sup>1</sup>All fees are inclusive of the net effect of GST

## Fund Features

- ASX quoted version of Magellan Global Fund.
- Fund is actively managed
- Minimum administration for investors; no paperwork needed to trade
- Units can be bought or sold on the ASX like any other listed security
- Efficient and live pricing
- Provision of liquidity by the Fund
- Settlement via CHES
- Magellan has significant investment alongside unit holders.

## Performance Chart growth of AUD \$10,000\*



## Fund Performance\*

	Fund (%)	Index (%)**	Excess (%)
1 Month	0.2	-0.4	0.6
3 Months	3.4	3.7	-0.3
6 Months	5.5	10.0	-4.5
1 Year	7.4	3.9	3.5
3 Years (% p.a.)	15.9	11.0	4.9
5 Years (% p.a.)	11.8	10.0	1.8
Since Inception (% p.a.)	11.4	9.1	2.3

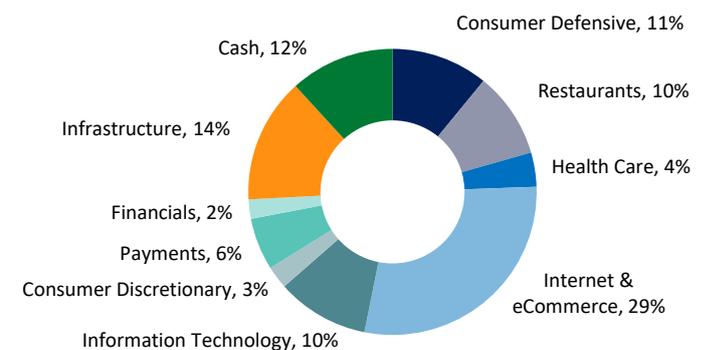
## Capital Preservation Measures<sup>^</sup>

Adverse Markets	3 Years	5 Years	Since Inception
No of observations	10	15	18
Outperformance consistency	80%	87%	89%
Down Market Capture	0.6	0.6	0.6

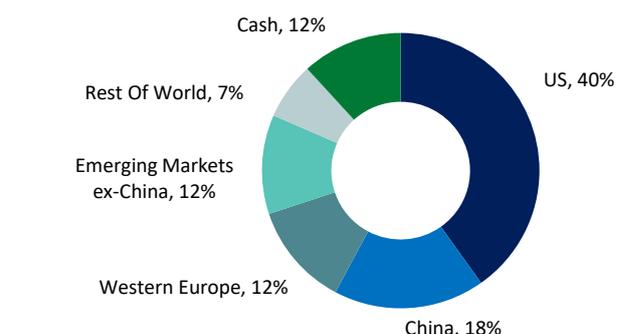
## Top 10 Holdings

	Sector <sup>#</sup>	%
Alibaba Group Holding Ltd	Internet & eCommerce	8.2
Microsoft Corporation	Information Technology	6.9
Tencent Holdings Ltd	Internet & eCommerce	6.4
Alphabet Inc	Internet & eCommerce	5.8
Facebook Inc - Class A Shares	Internet & eCommerce	5.5
Starbucks Corporation	Restaurants	4.6
Reckitt Benckiser Group	Consumer Defensive	4.6
Novartis AG	Health Care	3.9
Xcel Energy Inc	Integrated Power	3.7
Crown Castle International	Communications	3.7
<b>TOTAL:</b>		<b>53.3</b>

## Sector Exposure by Source of Revenue<sup>#</sup>



## Geographical Exposure by Source of Revenue<sup>#</sup>


<sup>^</sup> Risk measures are calculated after fees. An adverse market is defined as a negative quarter, rolled monthly, for the MSCI World Net Total Return Index (USD). Down market capture shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much.

<sup>#</sup> 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.

<sup>\*</sup> Calculations are based on the monthly ASX released net asset value with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 2 March 2015.

<sup>\*\*</sup> MSCI World Net Total Return Index (AUD).

## Market Commentary

Global stocks hit records highs in the three months to September as they rose for the sixth quarter in seven after reports showed stimulus is helping reopening economies recover from the pandemic, the Federal Reserve indicated it would keep rates low for a while yet, and tech stocks reported earnings that showed how much they have benefited from the shift to online. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Consumer Discretionary (+16%) rose the most as economies reopened while Energy (-16%) was the sector that declined. The Morgan Stanley Capital International World Index climbed 7.9% in US dollars but, after a rise in the Australian dollar reduced gains for unhedged investors, rose only 3.7% in Australian currency.

US stocks set fresh record highs after readings showed the jobs market had recovered nearly half the jobs lost when the economy was closed to restrict the pandemic, Big Tech shone and the Federal Reserve moved to a flexible average inflation target by allowing inflation to exceed 2%. The Fed's shift suggested lower interest rates for longer as it indicated the central bank would not pre-emptively raise interest rates when unemployment was low so long as inflation was under control. During the quarter, reports indicated the US economy was recovering from the record 31.4% annualised decline in the second quarter. Of note, a report showed the jobless rate fell to 8.4% in August and that the economy had added 10.6 million jobs since it shredded 22.2 million jobs in March and April when the jobless rate was 14.7% (compared with 3.5% in February). Big Tech CEOs survived a grilling from congress over the alleged anti-competitive nature of their businesses as the tech icons posted healthy earnings for the second quarter. In political news, the Democratic and Republican parties held their conventions and at quarter end polls placed Democrat presidential nominee Joe Biden ahead of President Donald Trump in the quest for the White House. The S&P 500 Index rallied 8.5%, to complete its best back-to-back quarters since 2009.

European stocks fell as reinfection rates picked up enough for restrictions to be reimposed. Of note during the quarter was that EU leaders struck an agreement to allow the EU to sell debt on a large scale for the first time so it could install a 750-billion-euro pandemic recovery fund. The Euro Stoxx 50 Index fell 1.3%. Japan's Nikkei 225 Index added 4.0% on the better global outlook as investors looked past the record annualised economic contraction of 28.1% in the second quarter and the unexpected resignation due to ill health of Prime Minister Shinzō Abe (who was replaced by Yoshihide Suga). China's CSI 300 Index surged 10.2% after a report showed the country's economy grew 3.2% in the June quarter from a year earlier, making China the first major economy to return to growth. Australia's S&P/ASX 200 Accumulation Index lost 0.4% amid concerns that Victoria's second lockdown was causing vast economic damage. The MSCI Emerging Markets Index rallied 8.7% in US dollars as key countries contained the virus and commodity prices gained.

## Fund Commentary

The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in Alibaba Group, Facebook and Starbucks. Alibaba rallied after the Chinese e-commerce giant reported revenue growth of 34% in the second quarter from a year earlier as lockdowns turned Chinese to online retail, and China's economy rebounded. Facebook rose after its 11% surge in second-quarter earnings beat expectations and the social-media company said its main site has 2.7 billion users per month. Starbucks rose after the coffee chain said its businesses in China and the US were recovering well as these economies reopened.

The biggest detractors were the investments in a recently purchased stock and Novartis. Novartis fell after the health-products group refused to discuss revenue or profits prospects when revealing that sales for the first half rose 1%, the higher end of expectations.

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

# Alphabet

People don't visit their lunch. They pay for it with a credit card. Teenagers don't McDonald's a hamburger. They eat one. Someone doesn't Coca-Cola a drink. Nobody says let's Apple somebody. Parents don't tell their kids to Colgate their teeth. Yet people Hoover a room, Uber home and Photoshop. And, of course, everybody Googles.

The morphing of a brand name into a verb is a rare feat achieved only by a product highly valued, widely used and dominant within its category. The owners of this product obviously possess something of value.

Alphabet is the parent company of Google and more. Sergey Brin and Larry Page, the two Stanford University students who started Google in 1998 when ranking search results, created Alphabet in 2015 to house Google, other internet-related businesses, and what the duo dubbed 'Other Bets', which are businesses they often started from scratch with the potential for disrupting large global markets. Chock-full of such assets, Alphabet has become one of the world's most valuable listed companies by market value. At times, the company has been the world's most valuable stock.

Alphabet, for all its subsidiaries, is mostly about Google, which has about a 90% share of the global search market outside of China (from where the company withdrew in 2010 after a hack). Google has ridden this success in search to become the world's largest advertising company, capturing about 26% of global media advertising spending. The business under the 'search & other' category in Alphabet's accounts provided about 61% of Alphabet's sales of US\$162 billion in fiscal 2019 and an even higher proportion of its earnings – advertising across all asset bought in 83% of revenue.

Google in 2009 released the Android mobile operating system for free to the makers of smartphones keen to meet the competitive challenge of Apple's iPhone and it is now the dominant mobile operating system. The majority of Android devices are preloaded with Google's services. Nine of these – Android, Chrome, Drive, Gmail, Google Pay, Maps, Search, Photos and YouTube – have more than one billion users a month. Google directly monetises Android through the Google Play Store, a platform where app developers can sell games, services and content to Android's billions of users. We estimate this added US\$10 billion to Alphabet's revenue last fiscal year.

In 2006, Google bought the video platform YouTube that earned US\$15 billion in revenue in fiscal 2019. Google Cloud

Platform, its huge public cloud, generated US\$9 billion in revenue in fiscal 2019 and grew by 53% over the previous year. Its revenue is likely to expand considerably in coming years as businesses turn more to outsourcing their hardware and software needs.

Over time, Alphabet has used some of Google's profits to invest in other, often far-flung, products and services, representing a series of bets that it could dominate potentially massive markets. These investments include artificial intelligence (DeepMind), drone delivery (Wing), internet access via high-altitude balloons (Loon), self-driving cars (Waymo), quantum computing, urban innovation (Sidewalk Labs), and secretive 'moonshot' programs (Google X).

It's rare to find a company with advantages in so many businesses. Alphabet owns some of the world's best businesses and it could one day own other businesses that are as dominant within their spheres. Alphabet is well placed to provide investors with compounded returns for years to come.

Every company has challenges and many of Alphabet's risks stem from its success. Regulators are questioning whether Google's dominance in search, digital advertising technology, and Android give the company too much market power. Google has been fined for anti-competitive behaviour in Europe. Media reports say the US Justice Department plans to file anti-competitive charges against Google soon. Australia's government plans to introduce a mandatory code of conduct aimed at improving the bargaining power of traditional media against Google (and Facebook) for displaying their news reports, something other governments could copy. Privacy surrounding the data Google collects for advertising is a concern in many jurisdictions. While these threats need to be monitored, it's unlikely that regulators will permanently reduce Google's competitiveness in search or digital advertising. YouTube is sometimes in trouble for the content it carries though the company is developing systems and hiring content reviewers to remove harmful content.

Alphabet is often criticised for the way subsidiaries shift revenue to minimise tax and we expect it will pay a higher tax rate over time as governments reduce their ability to do this. Some of Alphabet's other bets are in industries that appear distant from Google's core skills such as medical devices (Verily is making glucose-monitoring contact lenses) and town planning. But none need to succeed to justify the investment case.

Alphabet's growth rates are likely to fall over time. But any company that owns a household verb doesn't need much to go right for it to deliver bumper returns for its investors for many years.

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