

# Magellan Core Global Fund

(MANAGED FUND) (TICKER: MCSG)

A diversified global equity portfolio of 70-90 of the world's best companies

**PORTFOLIO MANAGER** **ELISA DI MARCO** **ARSN 645 515 082** **APIR MGE381AU** **AS AT 30 SEPTEMBER 2024**

## INVESTMENT PHILOSOPHY

To invest in outstanding companies and seek attractive risk-adjusted returns by utilising Magellan's long standing investment process to identify quality companies.

## OBJECTIVES

The Fund's primary investment objective is to achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified portfolio of high quality companies.

## PORTFOLIO CONSTRUCTION

An actively managed, research driven and competitively priced portfolio of 70-90 of the world's highest quality businesses. The Fund leverages Magellan's DNA, that is Magellan's proprietary definition of quality, ESG framework, investment process and investment team.

Typical cash and cash equivalents exposure between 0-5%.

## INVESTMENT RISKS

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](http://www.magellangroup.com.au).

## WHY QUALITY?

We aim to invest in companies that have sustained competitive advantages, which permits the company to generate returns on capital in excess of its cost of capital for a sustained period of time ("quality"). Companies with these attributes may reduce the risk of permanent capital loss. Active fundamental research and continuous monitoring are key to our determination of whether or not a company is 'quality'. We consider quality companies are more likely to withstand market cycles, and compound returns for investors.

## MAGELLAN CORE GLOBAL FUND: KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	NAV PER UNIT	BUY/SELL SPREAD <sup>1</sup>	MANAGEMENT FEES <sup>2</sup>
MCSG	AUD \$27.2 million	\$4.4607 per unit	0.10% / 0.10%	0.51% p.a.

## PERFORMANCE<sup>3</sup>

	1 MONTH (%)	3 MONTHS (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
Fund	-1.4	1.8	-0.1	17.7	7.5	10.5
Index*	-0.4	2.4	2.7	23.2	10.6	13.7
Excess	-1.0	-0.6	-2.8	-5.5	-3.1	-3.2

## CALENDAR YEAR RETURNS

	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (part year)
Fund	10.5	21.7	-14.4	27.3	-0.2
Index*	16.9	23.0	-12.2	29.3	-0.3
Excess	-6.4	-1.3	-2.2	-2.0	0.1

Past performance is not a reliable indicator of future performance.

## TOP 10 HOLDINGS

Company	Sector <sup>4</sup>	%
Home Depot Inc	Food & Staples Retailing	3.24
Alphabet Inc	Consumer Platforms	3.16
Amazon.com Inc	E-Commerce	3.13
Microsoft Corporation	Software	3.08
Mastercard Inc	Payments	2.99
Visa Inc	Payments	2.89
UnitedHealth Group Inc	Health Care	2.82
Netflix Inc	Consumer Platforms	2.80
SAP SE	Software	2.79
Eli Lilly & Company	Health Care	2.78
<b>TOTAL:</b>		<b>29.69</b>

## PERFORMANCE CHART GROWTH OF AUD \$10,000<sup>3</sup>



Past performance is not a reliable indicator of future performance.

<sup>1</sup> Only applicable to investors who apply for units directly with the Responsible Entity.

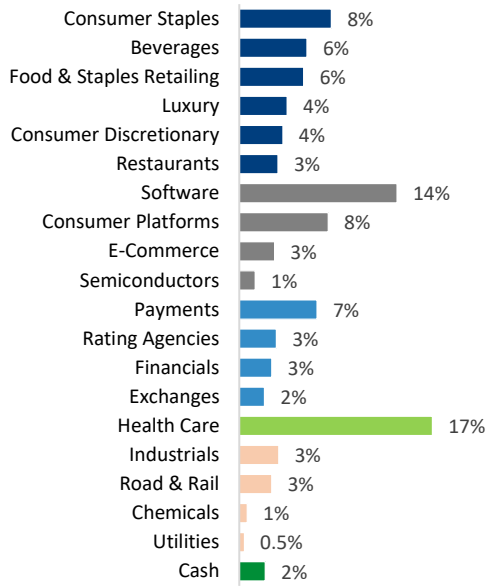
<sup>2</sup> Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

<sup>3</sup> 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.

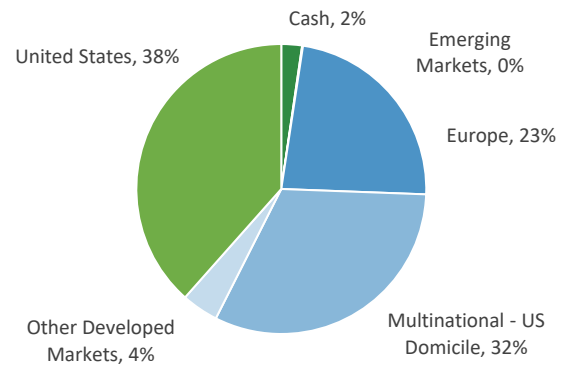
<sup>4</sup> Sectors are internally defined.

\* 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/](http://www.magellangroup.com.au/funds/benchmark-information/)

## PORTFOLIO SNAPSHOT<sup>5</sup>



## GEOGRAPHIC COMPOSITION<sup>5</sup>



## A SELECTION OF QUALITY PORTFOLIO HOLDINGS



The company logos above represent a selection of securities held by the Fund (in no specific order) as at 30 September 2024.

<sup>5</sup> Sectors and geographic compositions are internally defined. Exposures are 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. Past performance is not a reliable indicator of future performance.

## Market Commentary

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The September quarter saw a wild ride in markets. The MSCI World Index gained 6.4% in USD and 2.4% in AUD. Markets globally diverged from recent trends and from each other with returns being driven by differing actions by central banks and governments. Slowing inflation gave way to interest rate cuts by many central banks while the 50bp rate cut by the Federal Reserve gave China's government room to finally deliver a much-needed stimulus package and signal more would follow. The surge in Technology stocks ended as investors became more cautious about the length of time before profits would benefit from productivity solutions unlocked by Generative Artificial Intelligence. This was reinforced by regulatory scrutiny of the Technology sector. Overall, the MSCI sectors of Utilities (+15.7%), Real Estate (+15.3%), Financials (+8.5%), Materials (+7.6%) and Industrials (+7.5%) led markets in local currency terms in the quarter given sensitivity to falling rates. In contrast, Information Technology (+0.8%) and Communication Services (+1.8%) (by far the strongest sectors in the June quarter) were lagged only by the fall in Energy (-3.8%).

Regionally we saw the S&P 500 rise 5.5%, the Nasdaq Composite rise 2.6% and the Stoxx 600 rise 2.2% while China's CSI 300 rose 16% in CNY (21% in September alone) and Japan's Nikkei 225 fell 4.2% with a bout of material volatility in August. Australia's S&P/ASX 200 gained 7.8%, helped by linkages to China and the AUD gained 3.9% against the USD.

The 50bp rate cut by the Federal Reserve was the first since 2020, and alongside US economic growth data points, saw a 55bp fall in the 10-year US Treasury yield to 3.8%. This decline came despite expectations that deficits would rise under either Harris or Trump, a situation that would place upward pressure on bond yields. The Chinese Government's stimulus appeared designed to reduce the likelihood of current challenges in the housing markets and improve weak consumer and business confidence. Towards the end of the quarter, Israel undertook preparatory attacks on Hezbollah, raising the risk of higher energy prices, inflation and interest rates, as well as slower growth. These are all risks we are monitoring closely.

## Fund Commentary

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The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in Home Depot, McDonald's and Mastercard. Home Depot's share price outperformed owing to the Fed's recent 50bp rate cut and expectations for further cuts over the next 12 months. The market expects the end of restrictive monetary policy to improve housing activity, which directly benefits home improvement retailers. McDonald's outperformed this quarter following improved restaurant traffic trends, supported by recent value menu initiatives and marketing. Improved traffic trends have increased the market's confidence in the ability of McDonald's to restore its value-oriented positioning following multiple years of inflation-driven price increases. Mastercard outperformed in the quarter driven primarily by resilient earnings, which offset fears of a weaker consumer, and the pending settlement of a long-dated litigation that weighed on the stock in the prior quarter.

The biggest detractors in the quarter were ASML, Novo Nordisk and Alphabet. ASML reported a decent second-quarter result but it was overshadowed by reports that the Biden administration is considering further tightening of semiconductor export restrictions to China. Novo underperformed with fears of competition increasing cadence of competitor drug trial read-outs as well as ongoing concerns on pricing, reimbursement and the supply ramp. We view fears of competitor products as overdone given significant first-mover advantage in difficult-to-scale manufacturing/supply workflows as well as Novo's pending read-outs on next-gen GLP1s. Alphabet has been affected by negative sentiment surrounding two high-profile antitrust cases, as well as continued concerns regarding the impact of Generative Artificial Intelligence on Search growth durability.

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

## Outlook

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The economic balance of risks improved in the quarter as the US Federal Reserve cut interest rates by a larger-than-expected 50bp and US employment data surprised to the upside. In addition, China's economic stimulus reduced downside risks to that economy. Nonetheless, market valuations remain a little stretched and numerous uncertainties remain, including the US election, geo-political tensions, and the sustainability of US economic growth. The rules-based portfolio is designed to achieve attractive risk-adjusted returns through the cycle via the investment in high-quality companies. These companies' strong competitive advantages add to their resilience in any downturn and see them well placed to deliver strong earnings and share price growth over the long term.

## Stock Story – Colgate-Palmolive

(Lucina Martin – Investment Analyst)



It is not an easy feat to be crowned the world's most chosen personal care brand. This brand is found in more than 50% of all global households. It demands a diligent management team, a deep understanding of the consumer and consistent investment in new products and branding.

Colgate-Palmolive has been an excellent steward of its eponymous brand, Colgate, since its humble beginnings in the early 1800s. Since then, the company has transformed the brand from a basic dental powder in a glass jar into a global brand with operations spanning more than 200 countries. Grounded in differentiated R&D and science, Colgate now has a vast assortment of oral care products to make sure you have the Instagram-perfect smile. In the global toothpaste category, which has exhibited consistent ~5% growth between 2009 and 2023, Colgate holds a 20% market share and is 2.5x larger than the next competitor. Colgate's dominance is even more profound in certain markets such as Australia and Mexico where it controls a staggering ~53% and ~77% share respectively. Representing ~50% of its \$19.5b global revenue base, this highly scaled, profitable brand is the cornerstone of Colgate-Palmolive's economic moat. Toothpaste's habitual use under various economic environments also drives revenue and earnings predictability and, as a result, Colgate-Palmolive performs an important defensive role in Magellan's portfolio construction process.

As toothpaste is a 'must stock' item with immense scale, Colgate has favourable bargaining power within a consolidating retail environment. Colgate-Palmolive's leading personal and home care brands, such as Palmolive and Ajax that together represent ~30% of revenue, add further scale and bargaining power with grocery customers. Colgate's competitive moat is also protected by its differentiated R&D and large network of dentist endorsements. As a result, it faces a lower competitive threat from start-up and grocery-owned brands in developed markets. Meanwhile, in developing markets Colgate's popularity and consumer loyalty have been underpinned by its 'Bright Smiles, Bright Futures' educational program, which has engaged with more than 1.7b disadvantaged children since its launch in 1991.

Under the umbrella of Colgate-Palmolive lies another surprising asset, Hill's Pet Nutrition, which accounts for the remaining ~20% of company revenue. On the surface this may seem like an unusual pairing; however, this brand is closely aligned with Colgate-Palmolive's philosophy of scientific innovation and professional endorsement. For example, Hill's Pet Nutrition products are sold exclusively via veterinarians, certain ecommerce retailers and specialty pet retailers such as Petbarn rather than via a mass grocery retailer where its premium offering is difficult to showcase. Accounting for only a minor share of the global pet food market, Hill's still has a long runway to expand its business against a growing pet population.

Hill's is also favourably exposed to an ageing pet population via its specialised therapeutic product line, Prescription Diet, which offers pet parents best-in-class nutrition-based solutions for health conditions such as dermatitis, kidney disease and cancer.

As mentioned, the winning recipe for a high-quality, growing consumer brand is diligent management, a strong consumer understanding and a consistent investment approach. A great reminder of this concept was Colgate-Palmolive's subpar execution between 2015 and 2019 when the company had an unhealthy focus on short-term profitability and compromised investments in advertising and product innovation. Pleasingly, the current management team have identified these issues and increased advertising investments by 50% or \$1b since 2018. As revenue growth has reaccelerated, management gained additional flexibility to deploy even more investment funds and stimulate further growth. The company is on track to increase advertising by 15% this year alone. The fruits of these investments have driven positive business and share price performance.

Alongside these advertising adjustments, management instilled a longer-term innovation approach across the organisation. Management quickly discontinued plans for yet another toothpaste flavour that may add little growth and instead focused on developing new products that would revolutionise the category and create a new step in a consumer's oral care regime. Supported by its vast knowledge of the consumer, the company identified a growing beauty trend and a consumer desire for more advanced teeth-whitening products. Colgate-Palmolive's R&D teams quickly innovated on whitening formulations and product packaging, and subsequently broadened the product portfolio from merely toothpaste to cost-effective, DIY whitening pens. Pleasingly, these efforts have grown market share, reignited the company's growth flywheel and generated high-margin profits.

However, the hard work does not stop here. Every day, consumers are enticed by new brands and products, and Colgate-Palmolive must stay close to their consumers and their changing needs. We have confidence that Colgate-Palmolive's network of dentists and veterinarians, close retail partnerships, cumulative consumer insights and material reinvestment capacity place it in a strong position to navigate these changes and to grow cash flows for shareholders.

*Sources: Company filings, Euromonitor.*

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