KNOWING
what you don't know

Hamish Douglass,
Chairman and Chief
Investment Officer

> "This thing is different. Everybody talks as if they know what's going to happen and nobody knows what's going to happen."
>
> Charlie Munger, 17 April 2020

Donald Rumsfeld, the former US Secretary of Defense in the administrations of George W Bush and Gerald Ford, provided a useful framework to evaluate problems when he stated: "Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say, we know there are some things we do not know." It is valuable in deciding on a course of action to have a framework of known knowns and known unknowns about the situation or opportunity. Known unknowns could have material or immaterial consequences if they were to occur and you need to have a reasonable basis to assess their impact and likelihood of occurrence.

At Magellan, our task is to carefully assess facts, known and unknown, and then decide what course of action to take. In some circumstances, we will be optimistic when others are fearful and in other situations the reverse will apply. We are not predisposed to action, nor are we driven by a fear of missing out, nor by a concern that we might underperform a benchmark in the short term. We will do what we assess is the appropriate course of action, after a careful assessment of the facts, and not what other people are doing or saying. We suspect this might have been the failing of the George W Bush administration in deciding to invade Iraq as it appeared predisposed to action.

The Rumsfeld framework is useful in assessing what course of action we should take at the present time. I have set out what we know and what we don't know about the severe acute respiratory syndrome coronavirus 2 virus (SARS-CoV-2), the search for a cure and the economic impact of the pandemic. The analysis will show why the many known unknowns are making us cautious.

THE VIRUS

It is helpful to explain the nomenclature for the virus and the disease it causes. SARS-CoV-2 is the virus and covid-19 is the disease it causes. This is analogous to HIV being the virus that results in the AIDS disease.

THIS IS WHAT WE KNOW ABOUT THE VIRUS THAT CAUSES THE ILLNESS KNOWN AS COVID-19:

- The SARS-CoV-2 virus is highly contagious, spreads early and often before the host shows any symptoms. This makes it harder to control than other coronaviruses, such as the Middle East respiratory syndrome (MERS) and the severe acute respiratory syndrome (SARS), and other deadly viruses such as Ebola and HIV. The severity of the covid-19 disease ranges from asymptomatic cases and very mild cases to severe and deadly ones, particularly for the elderly and people who have underlying health conditions such as hypertension, diabetes and cardiovascular disease. It is estimated about 5% of people infected with covid-19 progress to a severe case of the disease.

- The pandemic is global with 188 countries affected. As at July 1, there had been over 10 million cases identified and over 500,000 reported deaths. There are some countries (including Australia, China, Japan, New Zealand, South Korea, Taiwan and Vietnam) that have substantially contained the virus with limited ongoing spread. There are other countries with declining levels of transmission but they are still experiencing substantial community spread; these countries include much of Europe and the UK. In other countries, the disease is still accelerating including much of Asia (with concerning trends appearing in India and Indonesia), Africa, the Middle East and much of Latin America (especially in Chile, Brazil and Mexico) and the US.

"There is some evidence that mutations have made the virus more infectious."

- In response to the mounting economic cost and community pressure, many countries have commenced reopening their economies by removing restrictions on the movement and gatherings of people. In many cases, restrictions are being lifted prior to the virus being contained. By the end of June, 40 US states had experienced an accelerating rate of incidence and increasing hospitalisations while restrictions were being relaxed.

HERE IS A LONGER LIST OF THINGS WE DON'T KNOW ABOUT THE VIRUS:

- How will mutations affect the behaviour of the virus? There is some evidence that mutations have made the virus more infectious. It is unknown if mutations will make the virus more, or less, deadly. The rate and nature of mutations are important issues in the search for a vaccine.
- Are people immune if they have had the virus or will their immunity fade over time and can they be reinfected? Some scientists believe that with coronaviruses people can become reinfected.
- How many people have been infected who have not been identified? If infections are much more prevalent than thought then it is possible some countries could be closer to achieving community or 'herd' immunity, assuming people cannot be reinfected.
- In the absence of a vaccine, how long will it take to achieve global herd immunity? The 1918–19 Spanish Flu lasted about 12 months in the US and spread in three waves – the first wave occurred in March 1918, the second wave in the northern winter of 1918 starting in October and the third wave in March 1919. Will the lockdown measures in many countries and voluntary social-distancing measures elongate the time frame for herd immunity?
- Will the opening of economies, protests and other gatherings lead to an acceleration of community transmission? Will it be possible to 'contact trace' all the people any infected protestor was near?
- How large will the pandemic become in the Middle East, Central and South America, Africa and Asia (excluding China, Japan, South Korea and Taiwan)? The transmission of the virus appears to be accelerating in many countries in these regions. Can it be contained given the limited ability to test, 'contact trace' and self-isolate? How large will be the loss of life given the limited hospital facilities to treat patients?
- Which countries will suffer a second wave of infection? This appears to be occurring already in countries that are reopening prior to controlling community transmission to minimal levels.
- Will there be a second wave of infections in the northern hemisphere winter later this year, as happened with the 1918–19 Spanish Flu?
- Is it possible to reopen borders, or create travel bubbles between certain countries, prior to a vaccine, without triggering a second wave of infection?
- Will testing, contact tracing and isolation contain a second wave? Some countries such as China and South Korea appear to have effective testing and contact-tracing infrastructure. Which other countries will be able to replicate this infrastructure? What will be the uptake of contract tracing apps in countries where they are voluntary?
- How might governments respond to a second wave of infection? Will countries reintroduce lockdowns? Will governments provide similar amounts of financial support to those affected as was provided in the first wave? How will people respond to a second wave? Will people self-isolate even if governments don't reintroduce lockdown measures?

A CURE

THIS IS WHAT WE KNOW ABOUT A POSSIBLE CURE:

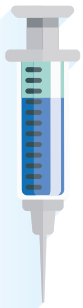
- There is no known cure for covid-19 but there are three possible solutions – herd immunity, a vaccine and therapeutic treatments.
- To achieve herd immunity, it is considered that 60% to 70% of the population would need to develop antibodies to the virus either via infection or vaccination. Given the mitigation measures being taken in many countries around the world, it is possible global herd immunity could take years in the absence of a vaccine. This of course assumes that a person cannot be reinfected.
- In relation to the possibility of, and time frame for, developing a vaccine there is some encouraging news:
  - The virus appears to be mutating slowly. This is a significant advantage over the HIV virus. No vaccine for HIV has been developed in nearly 40 years of research.
  - Scientists are not starting from scratch in developing a vaccine. They understand that similar to MERS and SARS the virus has a spike-like structure on its surface called the S protein that attaches to the surface of human cells. After entering a cell, the virus delays the usual immune response, allowing the virus to spread. A vaccine that targets the S protein would prevent it from binding to human cells and stop the virus from spreading.
  - The scale of vaccine development is encouraging. Reportedly more than 120 different vaccines are under development and 10 vaccines are under clinical evaluation. Regulatory bodies are allowing accelerated clinical trials and governments are funding investment in vaccine production technology and manufacturing capabilities.
- A sobering reality is that no vaccine has been developed for any of the known coronaviruses. There are three approaches to developing a vaccine. They are:
  - Live vaccines that use a weakened form of the virus to cause an immune response without causing the disease. Live vaccines are used for measles, mumps, rubella, smallpox and chickenpox. Live vaccines require extensive safety testing.
  - Inactivated vaccines that use a killed version of the germ that causes the disease to trigger an immune response. Inactivated vaccines are used to prevent the flu, hepatitis A and rabies. These vaccines usually result in lower immune response and require multiple boosters to provide long-term immunity. The most well-publicised inactive vaccine under development is the ChAdOx1 vaccine developed by the University of Oxford Jenner Institute. This vaccine was developed for the MERS virus, a coronavirus closely related to SARS-CoV-2. A clinical test in chimpanzees showed that no animals treated with this vaccine developed signs of MERS. The vaccine is being studied in phase I human trials in the UK and Saudi Arabia.
  - Genetically engineered vaccines that use genetically engineered RNA or DNA to instruct cells to make copies of the S protein to prompt an immune response to the virus. US-based biotech company Moderna Inc is developing and trialling a genetically engineered vaccine known as mRNA-1273. The vaccine has undergone an initial phase I clinical trial involving 45 adults aged 18 to 55. Preliminary results showed eight patients developed antibodies to the virus. The trial is being expanded to 60 people aged over 55 years old. Moderna has announced that it intends to commence a phase III clinical trial involving 30,000 participants commencing in July. On July 1, Pfizer and BioNTech announced they have commenced phase III clinical trials for a similar genetically engineered vaccine. No genetically engineered vaccine has been approved for human use to date.
- There are significant challenges to developing a vaccine.
  - To ensure safety for a vaccine to be given to billions of people, it will need to be thoroughly tested via extensive clinical trials. Any vaccine will need to go through three phases of clinical testing; phase I is a small trial to test the safety of the vaccine in humans; phase II is to test the formulation and establish the dose of the vaccine to prove effectiveness; and phase III is where

> **"The scale of vaccine development is encouraging."**

safety and efficacy is established in a wide population. While regulators are attempting to short-cut the approval process, it is unlikely a vaccine will be approved for wide use in fewer than six months from commencing clinical trials. Many experts do not believe a vaccine will be widely available to the public until sometime in 2021 at the earliest.

  - To be effective, a vaccine will need to provide people with long-term protection. There are no clinical short cuts to testing the long-term effectiveness of a vaccine and it can only be done by time-based longitudinal studies.
  - A particular challenge for finding an effective vaccine for SARS-CoV-2 is to have a vaccine that is effective and safe for elderly people, given the significantly higher mortality rates for older people. The concern is that the elderly don't usually respond as well as young people to many vaccines.

- There are over 200 potential therapeutics being tested in more than 1,100 clinical trials. To date, none of the therapeutic drugs that have been evaluated for the treatment of covid-19 have proven to be effective cures. Therapeutics can target the virus or the host's immune response at different stages of the disease. Simplistically, various drugs are being tested that can be used at the initial or latter stages of the disease:



"To be effective, a vaccine will need to provide people with long-term protection."

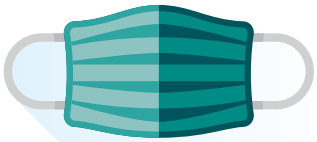
  - There are numerous drugs and therapies being developed to prevent progression of covid-19 in its initial stage. As at mid-June, only one drug, Remdesivir, had 'emergency use authorisation' by the US Food and Drug Administration. Similar approval for hydroxychloroquine/chloroquine was withdrawn on June 15.
    - Remdesivir is an antiviral medication that was originally developed by the US-based Gilead Sciences for the treatment of hepatitis C. It was subsequently trialled in the treatment of Ebola and has shown effectiveness in the laboratory and in animal tests as an antiviral against various coronaviruses. A recent clinical study showed that Remdesivir appeared effective in shortening hospital recovery time for patients with covid-19 (from 15 to 11 days) but did not materially alter mortality outcomes. The clinical study concluded that treating covid-19 with an antiviral drug alone is unlikely to be sufficient.
  - There is significant research being undertaken for the development of harvested or manufactured antibodies (either convalescent plasma or monoclonal antibodies) for the treatment of covid-19. Convalescent plasma or monoclonal antibodies are injected into patients to trigger the immune response to fight the disease. Monoclonal antibodies are the most effective treatment for Ebola. There are several phase I clinical trials of monoclonal antibodies being undertaken. The drawback of convalescent plasma and monoclonal antibodies is they are unstable and will be effective only as long as the antibodies are alive. Numerous medical experts believe manufactured antibodies could be a temporary solution to protect health and other 'front line' workers who are at high risk of being infected and to treat infected people.
  - There are several drugs being used during the progression of covid-19 to treat its medical complications. Drugs are being tested to:
    - suppress the immune response that is associated with the exaggerated immune response 'cytokine storm' that leads to acute respiratory distress syndrome (ARDS). Drugs being tested include anti-cytokine therapies and anti-inflammatory therapies that supress immune response. In June, the University of Oxford announced it had undertaken a trial that showed Dexamethasone, an anti-inflammatory steroid, was effective in reducing mortality. For patients on ventilators, the steroid reduced the risk of death from 40% to 28%. For patients needing oxygen, it cut the risk of death from 25% to 20%; and
    - address life-threatening complications such as blood clots. Drugs being tested include anti-clotting agents such as Heparin.

- Based on experience with the treatment of viruses where no vaccine exists such as HIV, hepatitis C and influenza, it is likely a combination of therapeutic drugs will be required for the effective treatment of covid-19.

THIS IS WHAT WE DON'T KNOW ABOUT A CURE:

- Will scientists be successful in finding a vaccine? In 1984, the US Secretary of Health and Human Services predicted that a vaccine for HIV would be found within two years. Thirty-six years later no vaccine has been discovered for HIV because the way the virus mutates in a single infection makes finding a vaccine difficult. The good news is that SARS-CoV-2 appears to mutate slowly. The bad news is that no vaccine has ever been developed for the known coronaviruses.
- How long will it take to test the safety and efficacy of a vaccine for a widespread rollout? To effectively test the safety and efficacy of a vaccine, extensive human trials will need to be undertaken across a wide cross-section of people. There are few short cuts to full-scale randomised human phase III trials and no short cuts for time-based longitudinal studies.
- How long will it take to scale manufacturing to billions of doses of the vaccine?
- Will a vaccine provide effective protection for elderly people? A vaccine that is not effective for older people will have more limited efficacy given the materially increased mortality rates of covid-19 for people over 65. It is therefore possible that a vaccine will not provide universal protection to all age groups.
- What level of immune response do coronavirus vaccines need to elicit to confer protection? The answer to this question has been elusive among coronaviruses.
- How long will protection last once someone has been immunised? Can a person be reinfected once they have recovered from covid-19? Some scientists believe that even after infection with coronaviruses reinfection can occur.
- Will a vaccine trigger a life-threatening response in some people? Some animal studies suggest that certain SARS and MERS vaccines might upon viral challenge be associated with eosinophilic pulmonary infiltrates lung disease. The dengue fever vaccine triggered a life-threatening response in some children and was pulled post launch.
- Will doctors find a combination of existing therapeutic drugs that materially improves the standard of care, substantially reducing mortality rates, in the next six to 12 months? The time frame for discovery and approval of a new therapeutic drug means that it is extremely unlikely any new drugs will be available within the next 12 to 18 months.

"Will a vaccine provide effective protection for elderly people?"



- Will manufactured or harvested antibodies be effective to trigger a sufficient immune response to protect people against the virus? How long will protection last? Will manufactured or harvested antibodies, if effective, be widely available within 12 months or will they only have limited application for some front-line workers and gravely ill people? Will an antibody treatment be effective in a gravely ill person or might it trigger an exaggerated immune response?
- How many people will be willing to have any vaccine, especially if it has been developed on an accelerated time frame, which would limit the knowledge of the potential risks associated with getting it?
- In the event of a vaccine, how will groups such as anti-vaxxers and state actors use social media to influence outcomes away from scientific and government advice? There is evidence that state actors have already promoted misinformation on the pandemic in social media to sow discord.

THE ECONOMIC IMPACT

The economic impact from the pandemic and the response from policymakers have no parallels in modern economic history. There are many variables that will have a material effect on the depth of the economic downturn and the shape of the economic recovery.

THIS IS WHAT WE KNOW ABOUT THE ECONOMIC IMPACT:

- The response to the pandemic has resulted in the largest reported loss of economic output in modern history in many countries. In April, industrial production in the EU plunged by 17% from March and gross domestic product (GDP) collapsed by 20% in the UK. The World Bank's central case is for a 5.2% contraction in global GDP in 2020, which would mean the deepest global recession in decades, despite the extraordinary support from governments and central banks.
- The government and consumer responses to the pandemic have resulted in massive

job losses in many countries. The reported unemployment in the US has jumped to 11.1% in June from 3.7% a year earlier, resulting in the loss of about 15 million jobs. (The total number of people employed in the US has dropped from 157 million in June last year to 142 million in June this year.)

- The fiscal response in many developed countries has broadly ranged from 1% to 10% of GDP. In most countries, the fiscal response to date has been materially less than the forecast contraction in output, which means the remainder of the burden of the contraction is being borne by individuals and businesses through a material loss of income. The fiscal support from many countries broadly falls into the following categories:
  - supplemental unemployment payments, such as Australia's JobSeeker supplement;
  - programs to subsidise wages to keep people employed during the pandemic, such as Australia's JobKeeper Program, the US's Paycheck Protection Program and the UK's Coronavirus Job Retention Scheme;
  - grants and interest-free loans to small businesses;
  - deferrals of tax payments for businesses; and
  - payments to individuals.

"The economic impact from the pandemic and the response from policymakers have no parallels in modern economic history."

- The major central banks have taken aggressive action to:
  - ensure the financial system has sufficient liquidity to function;
  - loosen monetary policy via reductions in policy rates. For example, the US Federal Reserve has reduced the overnight cash rate by 1.5 percentage points to between 0% to 0.25%;
  - implement large asset-buying programs (via quantitative easing) to inject liquidity, lower long-term interest rates and to support fiscal policies. Since February to mid-June, the Fed, the European Central Bank and the Bank of Japan had collectively purchased US$3.7 trillion of assets under their quantitative-easing programs; and
  - provide credit support for investment-grade companies to refinance and issue debt.
- Central banks are expected to keep interest rates at very low levels for many years. In June, the Fed said it expects to keep its policy rate at zero at least until the end of 2022.
- In many countries, banks and landlords have been required to defer loan and interest repayments and defer foreclosures and evictions during the pandemic.
- Consumer expenditure appears to be rebounding as governments relax restrictions and economies reopen. Mastercard has released data that indicated that payment volume on its payment network in the US has improved from minus 18% in April (compared with a year earlier) to an increase of 5% in the week ended June 21. In the rest of the world, Mastercard numbers improved from minus 27% in April to minus 5% in the week ended June 21.

HERE'S WHAT WE DON'T KNOW ABOUT THE ECONOMIC IMPACT:

- What is the true level of unemployment? Millions of people remain employed with their wages being subsidised by government-funded job-protection programs. How many more people would be unemployed in the absence of these programs? For example, 10 million people in the UK are receiving state wage subsidies as are millions of Australians, Americans and Europeans. How many people will businesses let go when government wage-subsidy programs expire? Will these programs be extended and, if so, for how long? Australia has announced that it will not extend these programs outside of a few heavily hit industries such as tourism.
- In many countries, there are supplemental unemployment benefits being paid to people out of work. What is the stimulus impact of the supplemental unemployment benefits? What will be the economic impact when unemployment benefits are reduced to normal levels?
- What will be the economic impact if there is a material second wave of infections?
- How will consumers and businesses change their behaviour post the pandemic? Will the pandemic shock lead to a prolonged increase in the savings rate? Will consumers

stop travelling even after the reopening of borders before a vaccine is widely distributed? Will business substantially reduce expenditure on travel and conferences and adopt video conferences and virtual conferences? Will business reduce their real-estate footprint by adopting work-from-home practices?

- Will increasing tensions with China lead to a material pull back in expenditure by Chinese nationals on tourism and education in certain countries?
- As the economic fallout from the pandemic becomes clearer, will governments continue to run extremely large fiscal deficits for prolonged periods or will they wind back spending? Will there need to be other fiscal adjustments such as increased taxes?
- How will banks respond at the end of servicing holidays? Can they continue to 'extend and pretend' or will they need to foreclose on borrowers? How long will they hold off on foreclosing? How many businesses and consumers will go bankrupt?
- What will be the impact of credit downgrades of borrowers from investment grade to sub-investment grade? Could this lead to the 'fallen angel crisis' resulting in substantial losses for debt investors? How will central banks respond to such a crisis?
- Notwithstanding unprecedented central-bank support, there are limitations on what central banks can do. What is the risk of an emerging-market currency crisis? The Fed is providing US dollars to many emerging countries via cross-currency swaps secured via US Treasuries held by the emerging country seeking US dollars. What is the risk of emerging countries running out of acceptable US-dollar collateral to obtain US dollars from the Fed? Could this trigger a collapse in the currency of an emerging market? How will the Fed be able to provide US dollars to emerging countries without acceptable collateral? The acceleration of the virus in many emerging markets may be increasing this risk. Other risks that may be hard for central banks to contain include large defaults or credit downgrades in the high-yield markets and defaults of structured products, particularly collateralised loan obligations.
- What is the risk of a European sovereign debt crisis if the situation deteriorates?
- Will commercial and retailing rents collapse? What will happen to property prices?
- Will inflation and interest rates remain low for the foreseeable future as expected or will the large government deficits financed with large increases in the size of central-bank balance sheets lead to inflation?
- How will the pandemic influence domestic and global politics, particularly given the erosion of globalisation and increasing sensitivities around trade?

WHAT IS OUR RISK APPETITE?

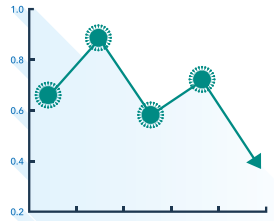
We remain cautious and have positioned our portfolios to withstand a further downturn in the economic outlook and markets. We don't know whether the world is on a bridge to recovery or on a bridge with a cliff at the other end. As we don't know, we will not speculate or gamble with our clients' money. We understand the limits of our knowledge. We have no fear of missing out. We feel it is prudent to be cautious when we cannot assess the probabilities of the pathway forward. The events of the past six months are without precedent and the way forward is subject to a multitude of highly uncertain, complex and interdependent variables. This means the range of potential outcomes remains vast. Due to the extreme uncertainty pertaining to so many critical interconnected variables, we have no reasonable way of assessing what the economic impact will be in the next 12 to 18 months. There is a tendency for people to simplify highly complex matters.

> **"We remain cautious and have positioned our portfolios to withstand a further downturn in the economic outlook and markets."**

This is understandable. Many investors have been gaining in confidence following the massive government stimulus and central-bank support, the move by many countries to reopen their economies, the strong recovery of equity markets from the nadir in March and the positive headlines on numerous vaccines and therapeutics. In simple terms, it could appear the worst is over. Unfortunately, the current situation is highly fluid and we don't believe there is any way of assessing whether the worst is behind us. There are simply too many known unknowns with material consequences. As Albert Einstein said: "Everything should be made as simple as possible, but no simpler."

It is plausible that we will have a widely distributed vaccine, or a widely available effective therapeutic, the economic bridges put in place

"... investors should be prepared for a wide range of potential outcomes in the next 12 months. There is a real possibility of a collapse in equity markets, just as there is for a continued grind higher in equities supported by low interest rates."



by governments and central banks will prove effective, and an economic recovery will be well under way within the next 12 months. It is also possible that we will not have a vaccine or a widely available effective therapeutic within this time frame and a cure might be years away, and a second or even a third wave of infections occur in many countries later this year or next year, banks start foreclosing on borrowers, tenants default on rental obligations, credit-ratings agencies downgrade hundreds of billions of dollars of debt from investment grade to sub-investment grade, companies cut back on expenditure forcing more job losses, emerging markets enter crisis territory and the world enters a very deep and multi-year prolonged recession. The answer to which pathway the world heads down in large part depends on the course of the virus and this will depend upon science (and the leading scientists do not have the answers). The most dangerous thing to do is to be overconfident that you know the answers to critical questions when it is not possible to know the answers with the limited state of knowledge. Margaret Thatcher said: "Those who think that they know, but are mistaken, and act upon their mistakes, are the most dangerous people to have in charge."

Even if we get an early breakthrough and we get an early vaccine or therapeutic, investors need to assess what might happen at the end of the government-funded 'economic bridge'. There are vast numbers of people and businesses that are surviving on government support. Once this pandemic passes this support will inevitably be removed and it is difficult to predict what will happen when this support is taken away. This will depend upon many variables that are almost impossible to predict. These include the scale of the lost economic output, the extent of change in consumer behaviour as a result of the pandemic (and again this will also be interdependent on the duration of the pandemic and the scale of economic loss), actions taken by business to cut costs as a result of losses suffered from the pandemic (the extent of cuts will be a function of the duration of the pandemic, the scale of loss, the level of unemployment, the propensity of consumers to spend and other changes in consumer behaviour; for example, an acceleration of online commerce could result in permanent job losses at many traditional retailers) and the extent of business failures. The extent of business failures will depend upon, among other things, the duration of the pandemic, the level of ongoing government assistance, changes to consumer behaviour resulting from the pandemic, and forbearance by banks and landlords in response to financial stress.

Investors should not take any comfort in the fact that world markets rallied 39% by the end of June from their nadir in March nor take comfort from the reopening of economies around the world or apparently positive news on the development of a vaccine or cure. There are simply too many interdependent uncertain variables in play at present. It isn't unusual during an extended crisis for markets to bounce strongly followed by a second sharp sell off. While we do not know how things will play out, investors should be prepared for a wide range of potential outcomes in the next 12 months. There is a real possibility of a collapse in equity markets, just as there is for a continued grind higher in equities supported by low interest rates. These aren't predictions but warnings that such outcomes are foreseeable at present.

Given the complexity and uncertainty of the situation, we are taking a cautious positioning until we can more clearly assess the probabilities on the pathway forward. We feel it is best to heed the sage advice of Warren Buffett when he said: "To finish first, you must first finish."

Hamish Douglass
Chairman and Chief Investment Officer

10 July 2020

IMPORTANT INFORMATION

This material has been delivered to you by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('**Magellan**') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

WHY A NIKE SWOOSH-LIKE recovery is more likely than a V-shaped bounce back

Hamish Douglass, Chairman and Chief Investment Officer

Janet L Yellen, Former Chair of the US Federal Reserve

Hamish Douglass, Chairman and Chief Investment Officer, caught up with Janet Yellen, the most recent former Chair of the US Federal Reserve, and an adviser to Magellan, about the current covid-19 health and economic crisis. The pair discuss the response of the Federal Reserve, the economic impact, the struggles of emerging markets and the risk of inflation.

HAMISH The Federal Reserve is being just as aggressive as it was in response to the global financial crisis. What is similar about this crisis to 2008-09? And what is different about this crisis?

JANET What's different about this crisis is that this downturn was induced by a non-economic shock, the pandemic. And that's different from 2008-09 or any other downturn that I can remember. The 2008-09 global financial crisis was induced by deep-seated problems in the economy and the financial sector; namely, incredible leverage in the banking system, a house-price bubble, rapid credit growth, weak underwriting standards and overindebted households. And that was a set of balance sheet problems that had to be worked off before the economy could recover. And that was a time-consuming process.

Now, if tomorrow a vaccine were invented, we all had it and the health risks were to end, the economy could largely go back to normal and the pre-pandemic situation when, even allowing for some challenges, the US economy was in good shape in a macroeconomic sense. But the health risks are unlikely to end quickly. And if they last a long time, as I expect, there's going to be a lot of scarring. Companies in the US started this crisis with a lot of debt and they're being forced to take on more. So it's going to be necessary for them to repair their balance sheets. There are likely to be significant corporate failures and that points to weak investment and employment heading into the recovery. Household finances are likely to suffer damage. They are going to need to restore financial buffers. The government has been doing a lot to support the economy. I hope some of that will continue. But the government too will end with a lot more debt and that will likely diminish future fiscal flexibility.

> **"There are likely to be significant corporate failures and that points to weak investment and employment heading into the recovery."**

HAMISH Janet, would you maybe explain in simple terms what the Fed has done in this crisis? What tools has it used?

JANET The Fed has acted quickly and forcefully and these steps fall into two categories: monetary policy and emergency lending. With monetary policy, the Fed quickly lowered the overnight short-term interest rate target, the Fed funds rate, effectively to zero and it

essentially promised that the rate would stay there for a long time. That's helped to bring down longer-term rates. The Fed also began essentially unlimited asset purchases. At first, these were oriented towards market functioning, which was highly impaired. But after about two weeks, starting in mid-March, the Fed bought almost US$2 trillion worth of assets, Treasuries and mortgage-backed securities.

That's not a small amount of money. The Fed also reactivated swap lines with other central banks, something it did in 2008-09 because banks all over the world that do business in dollars found themselves under pressure. Then in addition to that, the Fed saw stresses developing that looked very similar to 2008-09.

"The Fed really pulled out all the stops and I think things have improved considerably."

There were runs on money-market funds. Now, the Fed had figured in 2008-09 what to do to restore the functioning of money markets and the commercial paper market so it knew what to do. Almost every facility that was invented for 2008-09 is back in place. And that wasn't enough. So the Fed did more and it was very inventive and it's come up with new facilities.

The Fed really pulled out all the stops and I think things have improved considerably. We've got a health crisis causing an economic crisis but we don't have a financial crisis.

HAMISH Janet, a lot of people are talking about the shape of the economic recovery. Most letters of the alphabet have been mentioned. I think we've got the Nike swoosh as another shape people are talking about. What's your view?

JANET What happens definitely depends on the course of the virus and vaccines and treatments. But if I had to choose one option, I would choose the swoosh rather than a V. The thing about the swoosh is that it starts off looking like a V; you have a collapse. And I think we are seeing that. In the US, there was certainly a huge plunge, 5% negative growth in the first quarter. Most forecasters for the second quarter are looking for something in the order of negative 30% to 40% GDP growth at an annual rate. Shocking but probably May was the bottom and we're seeing quite a few indicators suggesting an impressive recovery. There was a surprisingly positive employment report in May when there was also a strong rebound in consumer spending. There's been enormous fiscal transfers and huge monetary support. And in other countries also, we're seeing a bounce back. States in the US are now beginning to end their lockdowns. We've seen people who were on temporary unemployment spells go back to work. So it's beginning to look V-shaped. But I opt for the swoosh because I don't think that's going to continue. I think we're going to see solid growth in the second half of the year. But I'm expecting that over the course of the year as a whole, output in the US will decline by something in the 5% to 8% range. I think we'll get growth after that, but to get back to where we started will take a number of years. There are a number of reasons why. One is that there's going to be a lot of corporate failure. There'll be a need for social distancing for a long time. We're beginning to see a resurgence in the US of infection. There is all too high a probability of a second wave of infections. There've been a lot of temporary layoffs. About 75% of people who've been laid off think they're going to go back to their old jobs. They say that in surveys. But, on the other hand, 25% of people think they're not going to go back to their old jobs. My guess is that some in the 75% group will find out that they're not going to go back to their old jobs. And it's going to take a long time to get the labour market back to normal. Then there's the issue of fiscal support. There's been a huge amount of fiscal support in the US. There are individuals who aren't getting any so there are pockets of pain. But on average, unemployment compensation is very generous. The replacement ratio; namely, the percentage of pre-layoff income that people are getting, averages more than 90%. For low-income workers, it's about 100% at this point. That's extremely generous. There were US$1,200 cheques sent out to most individuals but there's a fiscal cliff looming. A lot of the support ends this summer. Congress is talking about doing more but who knows what's going to happen. So there's a lot to retard a recovery. Thus I expect a swoosh, not a V.

HAMISH Janet, what risks worry you the most?

JANET I worry about the permanent job losses and how those people are going to get re-employed. I think it's going to be a long, drawn-out process. I find it hard to imagine that hospitality, travel, tourism and consumer-facing sectors will come back to anything close to where they were for a very long time. So there's going to be a lot of permanent layoffs in those

sectors. Structural changes that are underway in sectors such as retail will be accelerated. I'm enjoying working from home and I know a lot of firms that have no intention of going back to their old ways of doing business. Changes are going to occur as a consequence of living through this. I'm worried about many furloughed workers, their attachment to the labour market. I think there will be people who don't come back and are permanently sidelined. And I'm very worried about the degree of fiscal support, which we truly need to keep the recovery going. And I don't know if that's going to be there.

HAMISH Janet, the virus is running rampant in many emerging markets. What happens if we get a massive capital outflow in six months time in these emerging markets? They will be under enormous stress. Will the Fed accept any collateral to keep open swap lines for US dollars?

JANET I would be surprised if the Fed went further with emerging markets. Because this crisis has been caused by a virus, Congress has been very supportive of the Fed stepping in to help to keep credit flowing in a way that it was not in 2008-09. In the crisis a decade ago, a lot of people felt banks were responsible for what was happening. And they did not support Fed efforts to try to contain the damage to financial markets. This time, there's a lot of support for the Fed acting, but there are still limits.

HAMISH Janet, many people are focused on the scale of quantitative easing and the scale of fiscal deficits. The Fed has already expanded its balance sheet by about $3 trillion since the end of February. People say this will inevitably lead to inflation. How concerned are you about inflation and could we see higher interest rates?

JANET I'm not at all concerned about inflation for let's say a time horizon of two, three or four years during which the economy is recovering. I think we're going to need very low interest rates for a long time. Inflation is under downward pressure. This is a supply and demand shock. But the decline in demand, which tends to lower inflation, is much larger than the decline in supply, which creates isolated upward pressure in some sectors. And you've already seen, at least in the US, inflation numbers that are extremely low. So I'm not worried about inflation at all in the short term. If the economy recovers, now it gets to be a different story because we get to the point where the Fed may need to raise interest rates to stop demand from outstripping supply. And there's nothing to worry about with the Fed buying all those assets. Often people think, OK, they bought all those assets, trillions of dollars' worth of assets. It'll continue. And they created all those bank reserves. And that's money and money causes inflation. But that's not how it works because we think of money and what we're taught in our economics classes is that money is an asset that pays no interest. But bank reserves do pay interest. They pay whatever interest the Fed decides is appropriate. At the moment, the Fed has decided zero is appropriate. But when the time comes, when higher interest rates are appropriate, that stuff you call money, those reserves that now pay zero, they're going to pay interest. The Fed is going to raise the interest rate. They're going to become more like debt and not like what we think of as money and it's not going to cause inflation.

"I'm expecting that over the course of the year as a whole, output in the US will decline by something in the 5% to 8% range. I think we'll get growth after that. But to get back to where we started will take a number of years."

HAMISH But there might be countries in the world that decide they're not going to pay any interest on their excess reserves. Is there a risk that might happen in some economies?

JANET I believe that's more of a political question than it is an economic question. Independent central banks with inflation mandates, when they see that higher interest rates are needed to contain inflation, they raise interest rates. That's usually the end of the inflation risk. But the political angle comes in because we're going to have an enormous federal debt. And when the Fed decides to raise interest rates, that's going to increase the interest burden on that debt. And it's going to begin to put some real pressure on the government budget. And the government will

"I've been pleased that Congress and the administration have supported a very active role for fiscal policy."

have to raise taxes, cut spending, do painful things as interest payments get larger. At the moment, interest payments are very, very low and they're going to stay low as long as interest rates are low.

HAMISH Do you think central banks can lift interest rates to put the brakes on the economy when higher interest rates will make it harder for governments to cope with their debts?

JANET If central banks start raising interest rates it has an impact on fiscal policy. It has to become more contractionary. And if that happens, it means that there's less need to raise them to very high levels. But we're generally very worried about secular stagnation, weak spending in the economy, an environment in which there would be a prolonged reason for interest rates to stay low. And I think the pandemic has just intensified that problem. So I don't think we're going to go back to a world anytime soon where interest rates need to be high to contain inflation. But life is uncertain. Sometimes central banks lose their independence when the governments decide they've really got problems and they've got to go to that agency down the street and force it to hold interest rates low and buy the debt the government issues. That's how you end up with very high or hyperinflation. I don't think that's going to happen in the US.

HAMISH Janet, if you take a longer-term view, what are you most optimistic about at the moment?

JANET I'm optimistic about progress on vaccines and treatments. We've got a very inventive scientific community that's very hard at work. What I hear about vaccine development is very positive. And so conceivably late this year, early next year, we'll have vaccines that are going into production. I've been pleased that Congress and the administration have supported a very active role for fiscal policy. I'm worried about what's going to happen this summer, but I'm optimistic that there will be continued support. We do have an election coming up and I'm hopeful that we will come out of that with a renewed willingness to address some of these problems and a more organised strategy.

Hamish Douglass
Chairman and Chief Investment Officer

Janet L Yellen
Former Chair of the US Federal Reserve

10 July 2020

To watch the full video interview (~45 mins) please visit: 2020.magellaninreview.com.au

IMPORTANT INFORMATION

This material has been delivered to you by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('**Magellan**') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

The world's 'CONSUMER OF LAST RESORT'

Michael Collins,
Investment Specialist

China, rather than the US, could soon be the world's 'consumer of last resort'. To earn that status, which would mean that Chinese rather than US consumers would be the biggest single driver of the world economy, China must avoid a 'trap' among other challenges.

JULY 2020

La Samaritaine department store in Paris that was founded in 1870 is of such majestic art deco and art nouveau styling it was declared a national monument in 1990.[1] The building, nonetheless, was closed in 2005 because it was ruled unsafe.[2] Since then, Amazon and e-retailing more generally have battered department stores the world over and many have closed. Yet La Samaritaine is set to be reopened – even if that is delayed until next year due to the coronavirus. And when La Samaritaine does reopen, expectations are that it will achieve the buoyant sales enjoyed by other household-name department stores in Paris. Why the optimism about old-style retailing? Chinese shoppers. They are keen buyers of the 75 luxury brands offered by LVMH, the French icon that owns La Samaritaine.[3]

The spending power of Chinese consumers has reached well beyond Paris – their outlays drove 31% of the growth in global household spending from 2010 to 2017.[4] The influence of Chinese consumers is a tribute to the economic reforms launched from 1978 in the country of 1.4 billion people. After four decades of uninterrupted growth averaging about 10% a year until the virus-induced decline in the first quarter of this year, China's GDP is 30 times its size of 1980 while GDP per capita is 24 times higher.[5]

The result is that China now has middle and upper classes of about 400 million people who are wealthy enough[6] to make the Chinese the world's biggest spenders on luxury goods[7] and foreign travel,[8] to name just two segments. The mainly urban-based spenders could soon devote more to movies than Americans.[9] They are valuable customers the world over to education providers and farmers and many more industries. They have prompted household-name companies, from Apple to Walmart, to open outlets in China. They are, of course, powering local giants. Young Chinese are especially spendthrift. While 'young free spenders' are only 25% of the population, they accounted for 60% of China's consumption growth in 2018[10] and ensured that Alibaba's 'Singles' Day' sales have topped those of the US's Thanksgiving ('Black Friday') since 2013.[11]

As most economies expand over time, the fact that China's population is 4.2 times larger than the US's 330 million tally indicates that the Chinese could soon enough overtake Americans as the world's 'consumer of last resort' – jargon for saying they will become the biggest and most reliable single driver of the world economy. The gap? US household spending totalled US$13.6 trillion in 2018 (to comprise 68% of US GDP) compared with US$8.4 trillion for China (38.5% of that country's output).[12]

"Even if China expands at only sluggish rates, the GDP per capita is likely to rise enough in coming years to double the number of Chinese considered middle class. As such, the next stage of China's industrial revolution is geared to transform the world economy."

While the emergence of the Chinese as the world's biggest consumers seems almost preordained given they need consume only about 25% of what do Americans, the speed of the ascension is a more open question (virus-triggered disruption aside). China's challenge is that few countries make the transition from developing to advanced status because economic models based on low-end manufacturing exports and cheap labour can't easily make this leap.

To surmount this challenge, Chinese policymakers must modernise their economy even more. They are attempting to do so by, first, seeking to boost productivity to bolster living standards and, second, by ensuring that consumption becomes a bigger driver of this expanding economy. These fixes are likely to succeed for three reasons. The first is China has easy productivity gains within reach because much of the economy is still rudimentary. The second is that recent GDP growth (helped along by exports and investment) of an average of 6.6% per annum from 2014 to 2019 is providing economic momentum – past growth, for instance, has created jobs in cities that encourage urbanisation that prompts investment to expand city facilities, and so on. The third is government-driven increases in wages and more spending on social security are boosting consumption by increasing people's spending power and reducing their need to save. The result is China's middle and upper classes are likely to expand briskly in coming years. Before too long, the Chinese will overtake Americans to become the key single determinant of the world's economic health.

The US consumer will still be crucial to the world economy and global financial markets, of course. China's consumption could take far longer than expected to overtake the US's because things can go awry with any economy at any time, especially one with China's debt at 260% of GDP.[13] The rise of the Chinese consumer comes with disadvantages for the world and China. One drawback for the world is that China's government is willing to weaponise its consumers to achieve political goals.[14] The risk for Beijing of a rising middle class is that history shows the nouveau riche are more likely than the poor to demand political reforms (due to the phenomenon called the 'revolution of rising expectations') though there's no sign of unrest in Mainland China.[15] The growth in the middle and upper classes, by default, means that inequality is rising in China, a recipe for political disgruntlement. Even with swelling middle and upper classes, China is still a poor country when measured on a per capita basis (average annual income of US$7,723 in 2018) because it contains hundreds of millions of poor.[16]

But that's more or less the point. Even if China expands at only sluggish rates, the GDP per capita is likely to rise enough in coming years to double the number of Chinese considered middle class. As such, the next stage of China's industrial revolution is geared to transform the world economy.

TRAPS AND TURNING POINTS

In 2015, Chinese Premier Li Keqiang addressed the country's annual parliamentary meeting in the Great Hall of the People in Beijing. "Deep-seated problems in the country's economic development are becoming more obvious," Li told the 3,000 delegates at the National People's Congress. The country "must rely" on reforms "in order to defuse problems and risks (and) avoid falling into the 'middle-income trap'".[17]

With the last phrase, Li was referring to a term two World Bank economists[18] invented in 2006 to describe the stall in growth developing economies undergo after they have mobilised labour to rise from low- to middle-income status, a phase, when workers shift from agricultural to manufacturing, that is notable for high productivity gains. Once reaching middle-income ranking, when the shift of

labour from manufacturing to services slows productivity growth, most countries fail to raise living standards to those of advanced countries. Their handicaps typically are that they lack the skilled workforces, high-end manufacturing, financial sectors, institutions, governance standards and rule of law that advanced countries possess. [19]

While China's political system precludes the rule of law, governance standards need to improve, the state sector is bloated and the country has an ageing and soon-to-dwindle population, China is better placed than most developing countries to match the ascent of Hong Kong, Israel, Japan, Korea, Singapore and Taiwan from developing to advanced status. Studies on the middle-income trap (a concept that has its critics) have found that countries that possess educated populations and diverse, sophisticated and non-standard export bases best pilot their way from middle to high income. [20]

Given that China has these advantages, Beijing's overarching productivity fix is to allocate resources more efficiently by preferencing the supply-and-demand mechanism over central planning. The country is ripe for productivity gains because many of its industries operate below modern standards in terms of technology and practices. One IMF industry-based study released in 2019 forecasts that with reforms China's productivity is likely to jump from 30% of the US level in 2015 to 45% by 2030. Such achievable productivity gains are likely to ensure that China achieves robust economic growth over most of the 2020s before growth slows to 4% p.a. by 2030, the study found. [21]

Steps underway to boost productivity include the opening up and reforming of the financial sector to better funnel savings to productive use. Other moves to boost productivity include easing operating and entry restrictions on private and foreign competition, revamping state enterprises, making it easier for businesses to get power, strengthening protections for intellectual property and fostering technological advancements. [22]

Higher productivity will allow China's policymakers to hasten the shift to a consumption-led economic model.

To boost consumption as a percentage of output, Beijing increased wages by an average 8.2% p.a. from 2008 to 2017 – which means they more than doubled – a result well above the 0.63% p.a. score for the US over those 10 years. [23] Authorities have corrected mispricings of the yuan and interest rates to boost consumption – a higher yuan makes imports cheaper (while hurting exporters) while higher rates give savers more income (while raising borrowing costs for state firms). Within fiscal policy, they made the tax system more progressive, widened the tax base and boosted social spending. [24]

"Higher productivity will allow China's policymakers to hasten the shift to a consumption-led economic model."

For all the country's challenges (that now include growing tensions with the US and its allies), Chinese authorities are succeeding in their quest to make the country more productive and one driven more by consumption. China surged to 31st on the World Bank's 'Doing Business 2020' rankings – from 78th place two years earlier. [25] Consumption growth accounted for 76% of GDP growth in 2018 compared with only 47% five years earlier. [26]

China's rising consumption helps the world economy and no doubt Chinese spending will be evident at the reopened La Samaritaine once global travel is back to normal.

Michael Collins
Investment Specialist

10 July 2020

1 French Ministry of Culture. "Grand magasins de la Samaritaine.' pop.culture.gouv.fr/notice/merimee/PA00086005

2 BBC. 'Top Paris store 'was fire risk''. 10 June 2005. news.bbc.co.uk/2/hi/europe/4082272.stm

3 LVMH website. 'La Samaritaine'. lvmh.com/houses/other-activities/samaritaine/

4 McKinsey & Company. 'China consumer report 2020.' December 2019. Page 4. mckinsey.com/~/media/mckinsey/featured%20insights/china/china%20consumer%20report%202020%20the%20many%20faces%20of%20the%20chinese%20consumer/china-consumer-report-2020-vf.ashx

5 IMF World. China's economy stood at 90,104 billion yuan in 2019 compared with 43,282 billion yuan in 2009 and 2,651 billion yuan in 1980, measured in constant prices. GDP per capita rose from 2,716 yuan in 1980 to 64,352 yuan in 2019. imf.org/external/pubs/ft/weo/2019/02/weodata/index.aspx

6 McKinsey & Company. 'China consumer report 2020.' Op cit. Page 4

7 Chinese represented 33% of the global luxury market in 2018, up from 1% in 2000. Bain & Company. 'What's powering China's market for luxury goods?' 18 March 2019. bain.com/insights/whats-powering-chinas-market-for-luxury-goods/

8 Chinese outbound tourists have been the world's biggest-spending travellers since 2012 even though only about 10% of Chinese travel abroad – witness the hits to hoteliers, retailers and tourist sites around the world when the covid-19 coronavirus kept Chinese at home this year. Chinese travellers spent US$277 billion in 2018, the latest year for which tourist numbers are available. United Nations World Tourist Organisation. 'International tourism highlights. 2019 edition'. Page 15. e-unwto.org/doi/pdf/10.18111/9789284421152. 'UNWTO workshop on Chinese outbound tourism market.' 17 January 2018. unwto.org/archive/asia/event/unwto-workshop-chinese-outbound-tourism-market. By 2027, Chinese passport holders are expected to double to 300 million or 20% of the population.

9 China, with a 21.7% share, is the world's biggest movie market and could soon overtake the US. Statista. 'Leading film markets worldwide in 2018, by gross box office revenue.' 2020. statista.com/statistics/252730/leading-film-markets-worldwide--gross-box-office-revenue/. "Film industry in China – statistics & facts.' 9 January 2020. statista.com/topics/5776/film-industry-in-china/

10 McKinsey & Company. 'China consumer report 2020.' Op cit. Page 6.

11 Bloomberg. 'Chinese consumers now rule the world. Get used to it.' 28 December 2017. bloomberg.com/opinion/articles/2017-12-28/why-china-s-consumers-are-hottest-global-economic-force?utm_medium=email&utm_source=newsletter&utm_term=171228&utm_campaign=sharetheview&sref=ORbm2mFs

12 OECD data. 'Household spending.' data.oecd.org/hha/household-spending.htm

13 Non-financial sector debt has jumped from 134% of GDP in 2008 to 257% in 2018. IMF Working Paper. WP/19/263. 'China's growth potential – a stocktaking and reassessment.' November 2019. Page 3

14 Beijing has organised consumer boycotts to hurt countries and companies over issues such as Taiwan's status, supporting Hong Kong protestors or, in Australia's case, for seeking an inquiry into the coronavirus. The National Basketball Association of the US estimates it has lost hundreds of millions of dollars because Beijing has restricted coverage since the general manager of the Houston Rockets tweeted in favour of the Hong Kong protesters. See The Wall Street Journal. 'China standoff cost the NBA 'hundreds of millions'. 16 February 2020. wsj.com/articles/china-standoff-cost-the-nba-hundreds-of-millions-11581866522?mod=hp_lead_pos11

15 See 'The revolution of rising expectations'. The Future of Freedom Foundation. 1 May 2016. fff.org/explore-freedom/article/revolution-rising-expectations/

16 The World Bank. 'GNI per capita (constant 2010 US$)' for China. data.worldbank.org/indicator/NY.GNP.PCAP.KD

17 Reuters. 'China signals 'new normal' with higher spending, lower growth target.' 5 March 2015. reuters.com/article/us-china-parliament-idUSKBN0M103W20150305

18 The World Bank defines middle-income countries as those where gross national income per capita falls between US$3,956 and US$12,235. 'The World Bank in middle-income countries.' Updated 5 November 2019. worldbank.org/en/country/mic/overview. China's income per capita for 2018 in constant 2010 US dollars is US$7,723. The World Bank. GNI per capita (constant 2010 US$). data.worldbank.org/indicator/NY.GNP.PCAP.KD

19 Indermit S. Gill and Homi Kharas. 'The middle-income trap turns 10.' World Bank. Policy research working paper 7403. August 2015. documents.worldbank.org/curated/en/291521468179640202/pdf/WPS7403.pdf

20 See Linda Glawe and Helmut Wagner. 'The people's republic of China in the middle-income trap?' Asian Development Bank. ADBI Working Paper series No. 749 June 2017. adb.org/sites/default/files/publication/322961/adbi-wp749.pdf. Jesus Felipe, Arnelyn Abdon and Utsav Kumar from the Asian Development Bank. 'Tracking the middle-income trap: What is it, who is in it and why?' Levy Economics Institute of Bard College. 2012. levyinstitute.org/pubs/wp_715.pdf

21 IMF Working Paper. WP/19/263. 'China's growth potential – a stocktaking and reassessment.' November 2019. Pages 31 and 36. imf.org/en/Publications/WP/Issues/2019/11/27/Chinas-Productivity-Convergence-and-Growth-Potential-A-Stocktaking-and-Sectoral-Approach-48702

22 See The World Bank's list of 'Business reforms in China' since 2008. doingbusiness.org/en/reforms/overview/economy/china

23 International Labour Organisation. Global wage report 2018-19. Page 123 for China. Page 125 for the US. ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_650553.pdf

24 In 2018, for instance, authorities raised the threshold for individuals to pay income tax and created six special deductions and increased spending on care for the elderly and health. See Li Keqiang, premier of the state council. 'Report on the work of the government.' Second session of the 13th National People's Congress. March 2019. english.www.gov.cn/premier/speeches/2019/03/16/content_281476565265580.htm

25 The World Bank. 'Doing Business 2020 – Sustaining the pace of reforms.' 24 October 2019. worldbank.org/en/news/feature/2019/10/24/doing-business-2020-sustaining-the-pace-of-reforms. To see the ease of doing business in China, go to: doingbusiness.org/en/data/exploreeconomies/china#

26 IMF report on China. 'IMF country report no. 19/266.' '2019 article IV consultation' August 2019. Figure 2. Rebalancing: continued but uneven progress.' 'Contribution share to real GDP: demand side.' Page 43. imf.org/en/Publications/CR/Issues/2019/08/08/Peoples-Republic-of-China-2019-Article-IV-Consultation-Press-Release-Staff-Report-Staff-48576

IMPORTANT INFORMATION

This material has been delivered to you by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('**Magellan**') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

MANAGEMENT matters

Matt Williams, Airlie Funds Management portfolio manager

Terry Couper, Airlie Funds Management Co-Head of Research

Adjectives used to describe the past 12 months are losing their meaning; unprecedented, tragic, volatile, worrisome, and so on. Throw in some comments about the extraordinary levels of monetary and fiscal stimulus and there you have 99% of the commentary that will review this amazing period.

We do not know what the future looks like but we are optimistic. Worst-case health and economic scenarios, forecast by some, have not eventuated in Australia. Let's hope that continues.

Rather than making vague prognostications on what the future holds or predicting how stock markets will react, we wanted to share some insights from our investment experience and outline how this shapes our process and, ultimately, our portfolios especially with the current covid-19 backdrop.

> **"... we only get to judge the quality of management decisions made during the good times after the cycle turns and the 'tide goes out'."**

MANAGEMENT AND CAPITAL ALLOCATION

It has been said that we only get to judge the quality of management decisions made during the good times after the cycle turns and the 'tide goes out'. The tide certainly went out over the early part of this year. Whether it be the need to write down acquisitions purchased at the top of the cycle, repair balance sheets with dilutive equity raisings and dividend cuts, or jettisoning assets that are now 'non core', the recent market dislocations have shone the spotlight on management decisions made over the past cycle.

Assessing the quality of management teams is a central component of the Airlie investment process. There are many factors we use to do this but, ultimately, we look to invest the money of our clients in companies run by executives who we trust and view as highly competent. Furthermore, we think that management teams can influence the creation of shareholder value through their decisions on capital allocation.

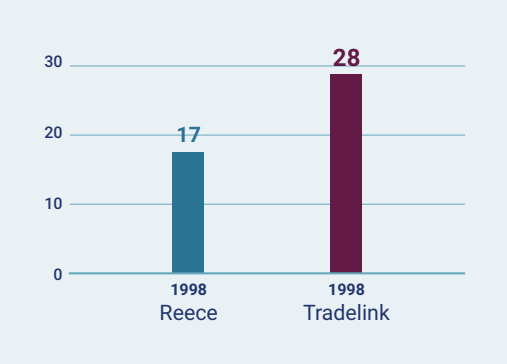
Below we present two examples that illustrate the shareholder wealth management teams can create when they allocate capital with skill and insight.

EXAMPLE 1: THE BATTLE OF THE PLUMBING WHOLESALERS

It's not only products and business models that create wealth. Management teams make decisions on how to deploy capital and over time those decisions compound on each other leading to potentially vastly different outcomes.

To illustrate take the example of two businesses that, on the surface, operate what would seem to be similar business models (wholesale distribution) selling similar products (plumbing supplies) to similar trade customers. If we rewind back to 1998, Reece and Tradelink were generating similar earnings of roughly A$20 million per annum.

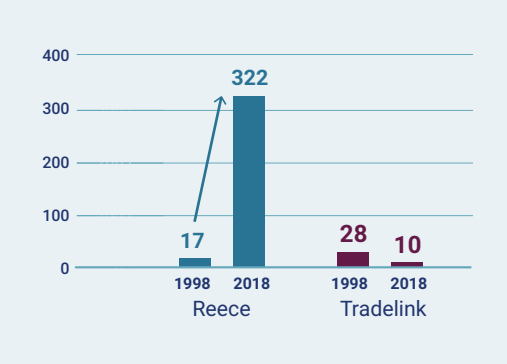
Figure 1: Reece and Tradelink operating earnings 1998 (A$m)



Source: Airlie Funds Management

Now let's fast forward 20 years, a timeframe in which management decisions have compounded their effects on the outcomes for the businesses.

Figure 2: Reece and Tradelink operating earnings 1998 and 2019



Source: Airlie Funds Management

The difference is stark. Reece has produced an 18-fold largely organic increase in earnings while Tradelink earnings have *actually fallen* over the last two decades. What was the difference over those 20 years? We attribute it overwhelmingly to Reece management. The business has been run by members of the Wilson family for decades. Over this time, they skilfully invested capital in high-returning projects to grow the business and stayed focused on core competencies with the long term in mind. Not only are they skilful operators but we also believe the family's significant shareholding (about 75%) of the business over that period further contributed to great decisions on capital. They had 'skin in the game'.

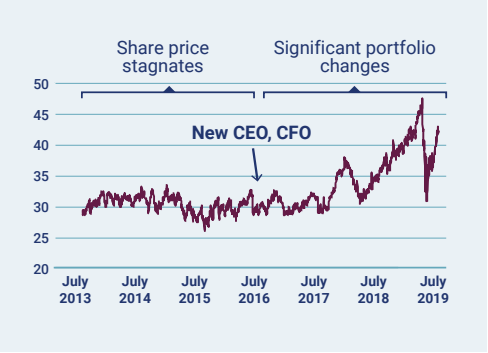
This owner-managed structure is one we like. We have several such long-term holdings across our portfolios including Reece, Premier Investments, Mineral Resources and Nick Scali.

EXAMPLE 2: WESFARMERS

If there was ever a good corporate structure in which to examine decisions on capital allocation it would have to be the conglomerate. While there has been much debate on the case for and against the conglomerate, proponents of the structure point to the ability of the corporate centre to make value-accretive capital decisions so that the whole is greater than the sum of the parts. Of course, if we invert this, the risk with the conglomerate is the company trades at a persistent discount to the sum of its parts. We believed this was the case with Wesfarmers in mid-2016. As you can see from the share price chart in Figure 3, Wesfarmers traded side-ways for the best part of five years from 2013 to 2018 when return on equity was stuck around 10% (adjusting for write-downs). Few material changes had been made to the asset portfolio and the company was dealing with some poor capital-allocation decisions in relation to the expansion of Bunnings into the UK.

Our analysis indicated there was value trapped inside the collection of assets that could be unlocked and we engaged with management on these views. Around mid-2017, Rob Scott was appointed CEO of Wesfarmers and quickly made significant changes. As outlined in table 1, Rob and his team skilfully extracted Wesfarmers from the UK, demerged Coles and made other material divestments that amounted to almost A$20 billion across 10 transactions. The company's share price has rallied since this time.

Figure 3: Wesfarmers share price since 2013 ($A adj. for Coles demerger)



Source: Airlie Funds Management

Table 1: Wesfarmers material events since 2017

Date	Transaction	Asset	A$bn
2017	Sale	Curragh coal mine	**0.7**
2018	Demerger	Coles (demerger)	**~16**
2018	Sale	Homebase / Bunnings UK	**nm**
2018	Sale	Bengalla coal mine	**0.9**
2018	Sale	Kmart Tyre and Auto	**0.4**
2018	Sale	Quadrant Energy	**0.2**
2019	Acquisition	Kidman Resources	**0.8**
2019	Acquisition	Catch Group	**0.2**
2020	Sale	Coles - Tranche I	**1.1**
2020	Sale	Coles - Tranche II	**1.1**

Source: Airlie Funds Management

IT DOESN'T MATTER UNTIL IT MATTERS... AND IT HAS REALLY MATTERED THIS YEAR SO FAR!

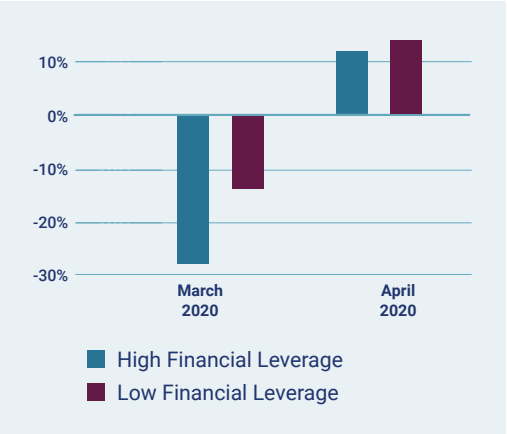
Not only did Wesfarmers management adeptly capitalise on the final stages of the bull market to sell assets at good prices, it built resiliency and optionality into the balance sheet heading into the downturn. This contrasts with how the Wesfarmers balance sheet was positioned during the global financial crisis and should bode well for the company's ability to make value-accretive transactions at attractive prices.

This focus on the balance sheet and a company's financial strength is another central component of the Airlie investment process. It helps us identify both opportunities such as Wesfarmers, and avoid 'value traps' whereby valuations may seem appealing but, with the wrong level of debt for the business model, a company is unable to consistently generate adequate cash flow and returns for shareholders.

Corporate debt levels haven't seemed to matter to the market over the last few years and some management teams have been lured by cheap debt to fund buy-backs or increase dividend payouts. The economic impacts of the covid-19 health crisis have quickly changed the market's view on the importance of financial strength. Figure 4 shows the outperformance of those stocks in the ASX 200 Industrials index with low financial leverage in March and April 2020. Our focus on financial strength has helped our portfolio through this period.

Figure 4: Outperformance of stocks with low financial leverage in March and April 2020

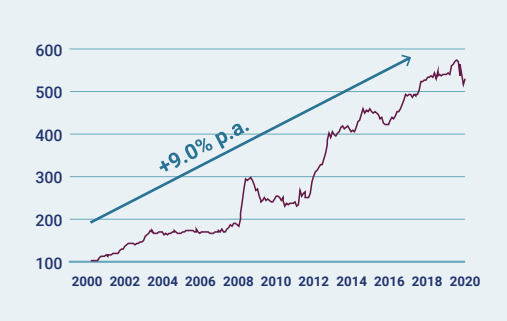
ASX 200 Industrials Total Return by Net Debt to EBITDA



Source: MST Marquee, Airlie Funds Management

As a result of the economic impacts of the covid-19 crisis and the market's renewed focus on financial strength, we have seen over A$20 billion of equity capital raised on the ASX in the past four months to repair balance sheets. However, we believe that it is not only in the short term that financial strength matters. Over the long term, companies that are able to fund their operations, including growth, from internally generated cash flows tend to outperform those that repeatedly need to come to the market to raise equity. This collection of companies that repeatedly require new equity capital, or 'equitisers', have underperformed by 9% p.a. relative to low equitisers on the ASX over the past 20 years. These decisions about how to fund the business tie back to management decisions on capital allocation.

Figure 5: Long-term outperformance of companies with low levels of 'equitisation'



Source: MST Marquee, Airlie Funds Management

We are ultimately optimistic, even though we are unable to predict the future. The government and community response in Australia has kept us in relatively good shape. We are mindful that in the very short term, government policy responses will be key to both the health and economic outlook. Currently in Australia the Job Keeper/Job Seeker fiscal programs are due to be removed later this year, and from our discussions with company executives there is caution on the ramifications for employment and consumer spending from the removal of these programs.

While the near-term outlook is uncertain we have confidence in our investment process; it is robust and has been tested through multiple cycles over two decades. We continue to expect those companies with high-quality management teams and strong balance sheets to do well over the medium to long term and we remain disciplined in our investment approach as we navigate the current uncertainty.

Matt Williams
Airlie Funds Management portfolio manager

Terry Couper
Airlie Funds Management Co-Head of Research

10 July 2020

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited (ABN 31 120 593 946, AFS Licence No. 304 301) trading as Airlie Funds Management ('**Airlie**') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to an Airlie financial product or service may be obtained by calling +61 2 9235 4760 or by visiting www.airliefundsmanagement.com.au.

This material may include data, research and other information from third party sources. Airlie makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Airlie. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

Covid-19 and global listed INFRASTRUCTURE

Gerald Stack, Head of Investments and Head of Infrastructure

The following discussion seeks to outline how we think about the investment case for infrastructure, the impact of the covid-19 crisis upon the different infrastructure sectors and the outlook for these sectors.

INVESTMENT CASE FOR INFRASTRUCTURE

Central to the investment case we make for infrastructure is that such assets generally produce reliable earnings because they provide services that are essential to the efficient functioning of communities and face limited, if any, competition. Because the services provided by infrastructure companies are essential, the prices charged can be increased with limited impact on demand. As a result, earnings are reliable and generally enjoy inherent protection against inflation. Over time, the predictable earnings derived from infrastructure assets are expected to deliver income and capital growth for investors.

Investors have generally defined infrastructure as essential assets—assets that provide services that are essential to the efficient functioning of communities. Where our strategy is different is that we apply a stricter definition in determining which companies and assets qualify as infrastructure and are eligible for investment in the strategy. We believe that a key reason investors invest in infrastructure is that they seek the reliable returns that are associated with the asset class. To ensure we achieve this key objective, we exclude infrastructure stocks whose earnings are materially exposed to competition, sovereign risk and changes in commodity prices. The aim of our approach is to limit our investment universe to stocks that provide investors with predictable inflation-linked returns over a business cycle.

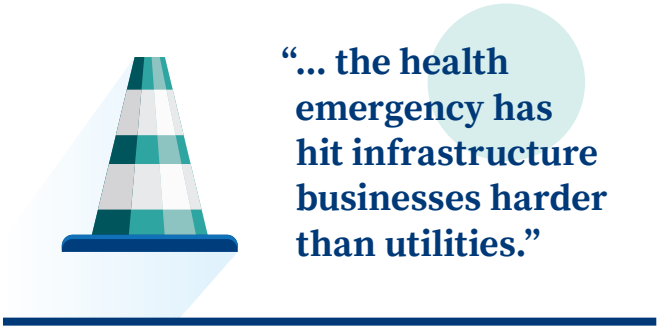
The universe of infrastructure assets that we consider for the strategy mainly comprises two sectors:

- Regulated utilities, which includes energy and water utilities. We estimate that utilities comprise about 60% of the potential investment universe for the strategy. Utilities are typically regulated by a government-sponsored entity. Such regulation requires the utility to efficiently provide an essential service while allowing the utility to earn a fair rate of return on the capital it has invested.
- Transport infrastructure assets that provide mobility to people and goods to transport them around the communities we live in. Transport infrastructure assets include airports, ports, railroads, toll roads, communications assets and energy infrastructure (oil and gas pipelines). Regulation of infrastructure companies is generally less intensive than for utilities and allows companies to benefit from a greater number of people using their services. As populations grow and economies develop and become more interdependent, we expect aviation, shipping and vehicle traffic to increase, as will demand for communications and energy.

OUTLOOK FOR INVESTMENT IN INFRASTRUCTURE

We are confident that the underlying businesses we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses that we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices in the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

We are cautious about the path ahead and have positioned the infrastructure portfolios with a defensive mindset. We feel it is prudent to be cautious given that the uncertainty pertaining to health and economic scenarios means that the range of potential investment outcomes we face remains wide.



"... the health emergency has hit infrastructure businesses harder than utilities."

THE SECTOR-LEVEL IMPACT OF COVID-19

As noted above, our investment universe comprises regulated utilities (water, gas and electricity) and infrastructure companies (toll roads, airports, communications infrastructure, energy infrastructure and rail). Overall, the health emergency has hit infrastructure businesses harder than utilities.

REGULATED UTILITIES

Regulated utilities provide access to a range of services including the provision of water and wastewater services and energy. The transportation and distribution of water and energy are typically natural monopolies; that is to say, it is more efficient to have a single supplier of the service than multiple suppliers. Consequently, the supplier does not face competition.

As utilities provide a service essential to modern life and face no competitive threats their economic earnings potential is typically limited by regulation where a regulator sets the price that the utility can charge for its service rather than the utility setting the price. This regulator sets the price at a level that allows the utility to earn a 'fair' profit after taking into account expected demand for the service and the reasonable costs the utility is expected to incur in providing the service. Provided the expected demand forecast by the regulator is accurate and the utility can manage its operating costs in line with the amount allowed for by the regulator then the utility will make a 'fair' profit.

The lockout of physical commerce in response to covid-19 has hit utility volumes and utility operating costs. Data from the US Energy Information Administration shows that the volume of electricity demanded in the US fell about 5% in April 2020 and 7% in May 2020. The drop reflects the reduction in commercial and industrial electricity volumes as businesses closed due to quarantine requirements. This effect has been somewhat offset by an increase in household demand due to people working from home. The economic decline caused by the lockout of physical commerce is expected to lead to an increase in the number of businesses that will encounter solvency issues and an increase in unemployment. The natural consequence is an increase in the number of customers who will be unable to pay their bills, leading to an increase in bad debts. Due to this, the amount of revenue earned by utilities will likely decline.

The covid-19 economic crisis is likely to lead to pressure on short-term earnings unless the regulated utilities can take actions that will offset this. However, regulators generally allow losses incurred due to issues outside of the control of the regulated utility to be recovered by the utility over the near to medium term by socialising these costs across the customer base. For example, reflecting the depth of the economic crisis, the bulk of utilities we follow have elected to maintain water and energy services to customers who were unable to pay their bills. In return, regulators have typically announced that the expenses incurred by utilities as a result of such actions can be accrued and recovered from the broader customer base in the future. This means that utilities should continue to make 'fair' profits.

Due to this regulatory arrangement, regulated utilities might face some short-term declines in earnings but we do not expect significant changes to their long-term earnings outlooks.

Notwithstanding the current crisis, the bulk of the regulated utilities that are in the infrastructure investment portfolio have noted that they do not expect earnings to suffer material declines. Indeed, almost all of the utilities in the portfolio have reaffirmed their earnings guidance for 2020.

In an environment where our base case is that economic growth will be difficult to come by and interest rates are likely to remain at historically low levels, we believe regulated utilities remain attractive investment propositions.

INFRASTRUCTURE

Infrastructure assets enable the transport and distribution of people, goods and data across the community. The infrastructure sector includes the following segments: airports, toll roads, rail, communications infrastructure and energy infrastructure. The covid-19 crisis has affected the different segments of the infrastructure sector in different ways, as the following shows.

AIRPORTS

Airports generate revenues through three major businesses. The aeronautical business charges passengers and airlines for using facilities such as runways and terminals. The commercial business generates revenue from the commerce that takes place at an airport's retail shops, car parks and the food and beverage outlets. Finally, the property business earns rental income from the businesses that rent office or industrial space from the airport.

The International Air Transport Association (IATA) has noted that by the first week of April, governments in 75% of the markets it tracks had banned entry while an additional 19% had imposed travel restrictions or compulsory quarantine requirements for international arrivals. As a result of the closing of the majority of international and domestic borders the level of aviation activity was essentially reduced to zero in most aviation markets from April to June. With no passenger throughput the revenues for most airports collapsed.

In response to the crisis, airports were quick to ensure they had sufficient available cash to pay their expenses by raising debt and suspending dividends. The large listed airports in our universe were able to raise significant amounts of debt. For example, Sydney Airport announced on April 20 that it had raised an additional A$850 million, Aena of Spain raised more than 1.9 billion euros in April and May while ADP of France raised 2.5 billion euros in April. The ability to quickly raise significant amounts of debt reflected the powerful earnings track record of airports and the expectation from debt providers that when the crisis is over airports will again generate reliable earnings.

The aviation industry has faced many demand shocks in recent times. Events such as the failure of airlines (for example, the failure of Ansett in Australia), the September 11 terrorist attacks on the US in 2001, the economic fallout from the global financial crisis in 2008, and the SARS disease crisis of 2002 to 2004 led to material reductions in aviation activity. After each shock, aeronautical activity rebounded strongly such that the number of passengers travelling quickly rose above previous levels. The desire to travel meant that the demand for long-distance mobility won out.

"... the impact of the covid-19 crisis on the aviation sector is unlike anything the industry has previously experienced."

Despite this track record, the impact of the covid-19 crisis on the aviation sector is unlike anything the industry has previously experienced. We expect that travel volumes will progressively return as the desire to travel reasserts itself but that the time period over which it takes to return to previous levels will be much longer than experienced in previous shocks. We have started to see the green shoots of aviation markets reopening—IATA has reported that from late May flight levels in South Korea, China, and Vietnam have risen to a point now just 22% to 28% lower than a year earlier while searches for air travel on Google increased by 25% by the end of May compared with the April low, albeit they remain 60% lower than at the start of the year. Despite these positive developments, much uncertainty remains around the near-term outlook for aviation and we remain cautious about the investment prospects for airports compared with other infrastructure sectors.

TOLL ROADS

Toll roads enable efficient transport of people and goods across and between communities. Progressive population growth in the community leads to demand for new toll roads because the existing routes—the untolled alternatives—are essentially running at capacity and the government does not want to pay for new infrastructure. The value proposition toll roads offer consumers is they reduce the time taken to complete a trip compared with the free alternative and they also improve the certainty of travel times.

"... we expect traffic to return to more normal levels over the medium term."

The combination of government-mandated quarantines and the lockout of physical commerce has led to significant reductions in traffic on all roads. Italy's Atlantia owns interests in toll roads located in Spain, France, Italy and South America and has released data that shows that at the height of the crisis in Europe average daily traffic on its toll roads in Spain, France and Italy declined by more than 80% compared with a year earlier. While the covid-19 crisis has made movement around and between communities more problematic in the short term, we expect traffic to return to more normal levels over the medium term. Indeed, traffic is ultimately a function of population and economic development in the communities the toll roads serve. By the middle of June, average daily traffic for Atlantia's roads in Italy and France, where the lockdown conditions had been loosened, was down by 26% to 28%; that is to say, the level of average daily traffic had recovered from being more than 80% down to about 30% down. For Atlantia's roads in Spain, average daily traffic had fallen by approximately 50%, which reflected the stricter lockdown conditions still applying in Spain.

While toll roads will face a hit to earnings in the short term, we are confident that traffic and consequent earnings will return to more normal levels over the medium term. Indeed, given the natural reluctance of people to travel on public transport in the absence of a vaccine it might be that traffic levels return to pre-covid-19 levels relatively quickly.

RAIL COMPANIES

Rail companies are integral to the movement of goods across an economy. From agriculture to automotive parts to chemicals and coal, railroads serve practically every industry.
In simple terms, rail companies charge shippers based on the volume of goods transported and the distance those goods are transported. A key risk faced by rail companies is the potential fluctuation in the volume of goods transported due to changing economic conditions.
For example, the volumes transported by US rail company CSX declined by 15% in 2009 following the onset of the recession in the US.

The quarantining of communities and the shutting down of physical commerce have proved to be significant blows for rail companies. For example, the volumes transported by CSX declined by 21.5% in the second quarter of 2020 (the 12 weeks ended 13 June 2020) compared with the same period a year earlier, according to the Association of American Railroads. However, the US rail businesses are diversified across industries and we expect volume losses due to interruptions to supply and economic decline to be recouped as the US economy recovers. While conditions for rail remain poor and there remains much uncertainty surrounding the US economic outlook, the rail companies have seen improvement in volumes in June. Data from the Association of American Railroads shows that CSX volumes in week 24 of 2020 declined by 17.7% compared with the same week a year earlier, an improvement compared with week 19 of this year when freight volumes had declined by 26.2%.

While railroads will face a hit to earnings in the short term, we are confident that as the US economy recovers, rail will enjoy rising freight volumes. This will lead to a recovery in the earnings of rail companies.

COMMUNICATIONS INFRASTRUCTURE

Communications infrastructure refers to the structures, technology and connections that enable the transmission and routing of data. Communications infrastructure companies effectively charge rent, typically under long-term agreements, for the use of the infrastructure assets they have built. Key customers are telecommunications carriers and large enterprises. By sharing assets among multiple customers, communications infrastructure owners provide customers with a low-cost service while generating attractive returns.

The proliferation of smartphones and the rise of streamed media among other factors have led to an explosion in demand for data and fast connection speeds. This is expected to continue. US communications technology equipment

giant Cisco has projected that global IP traffic will grow 200% between 2017 and 2022 while US wireless data traffic will grow 400%. Meeting this increased demand will require greater usage of existing infrastructure, which is often constructed with spare capacity, and investment in new infrastructure. Both will benefit communications infrastructure companies.

Communications infrastructure companies have been largely unaffected by the covid-19 crisis. Many customers have experienced increased network demand due to an increase in the number of people working from home. Further, in the US and most other countries, communications were deemed an essential service and investments in infrastructure exempt from quarantine orders. While increased near-term demand is unlikely to provide an immediate boost to revenues for communications infrastructure companies due to the nature of the contracts, investments by customers in response to more permanent shifts in behaviour are likely to support demand for their assets over time.

For consumers, social isolation and working from home have demonstrated the importance of high-quality broadband networks. As Jessica Rosenworcel, Commissioner of the US Federal Communications Commission, recently noted: "This pandemic has demonstrated conclusively that broadband is no longer nice-to-have. It's a need to have."

We expect the earnings of communications infrastructure companies to be highly defensive in response to this crisis and the outlook to remain positive as demand for data grows and network investment required to meet this demand is made.

ENERGY INFRASTRUCTURE

The energy-infrastructure companies in the strategy generate earnings by storing oil, gas and chemicals or transporting oil and gas across their pipeline networks. Energy-infrastructure companies are essential to the distribution of energy in communities and earn revenues based on long-term contracts with minimal direct exposure to commodity prices. As the bulk of revenues are derived under long-term contracts, a change in oil prices, such as the significant decrease in oil prices that occurred during the covid-19 crisis, typically only has a minor impact upon revenues and earnings. For example, Enbridge, a Canadian-domiciled energy-infrastructure company, has noted that less than 5% of earnings are linked to commodity prices.

The customers of energy-infrastructure companies are typically energy producers and these companies face reduced revenues and earnings due to a decline in energy prices. If these customers have solvency issues then this could lead to an increase in bad debts, but access to energy-infrastructure services is essential to the ability of energy companies to earn revenues; that is to say, the use of energy-infrastructure services is non-discretionary if energy companies want to get their product to their customers. Typically, the overwhelming bulk of customers are investment-grade credit quality. For example, Enbridge has noted that more than 95% of customers are investment-grade credit quality while APA Group, an Australian gas pipeline company, has noted that 93% of revenues are derived from investment-grade customers.

The shutdown of many businesses and any consequent slowdown in the economy could lead to a reduction in the volumes transported across energy networks. While the revenues energy-infrastructure companies earn from transporting oil and gas can change with movements in volumes, underwritten 'take or pay volumes' usually account for the majority of revenues so we assess their exposure to volume decreases as low.

> **"An investment in listed infrastructure can be expected to reward patient investors."**

In terms of our outlook, we believe that infrastructure assets, with their reliable earnings that are protected to a degree from inflation, are an attractive long-term investment proposition. The predictable nature of their earnings compared with those offered by other asset classes means that infrastructure assets offer diversification benefits. In uncertain times, the reliable financial performance of infrastructure stocks makes them particularly attractive. An investment in listed infrastructure can be expected to reward patient investors.

Please keep safe and best wishes,

Gerald Stack
Head of Investments and Head of Infrastructure

10 July 2020

IMPORTANT INFORMATION

This material has been delivered to you by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 ('**Magellan**') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

MAGELLAN GLOBAL FUND
MAGELLAN GLOBAL FUND (HEDGED)

Hamish Douglass, Chairman and Chief Investment Officer

The Magellan Global Fund is a core holding that invests in the world's best 20 to 40 global stocks. The portfolio aims to deliver 9% p.a. over the economic cycle while reducing the risk of permanent capital loss. The hedged version of the portfolio aims to protect returns from currency movements.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus offset the damage from the coronavirus to economic activity, company profits and investor confidence. Over the last three months of 2019-2020, stocks recovered from post-virus lows after an ebbing in infection rates in developed countries allowed governments to ease restrictions on everyday life, even though the economic hit from the virus was so stark that the US entered its first recession in nearly 11 years.

The portfolio recorded a return after fees of 9.0% for the 12 months while the hedged version's return after fees was 4.5%. The stocks that performed best included the investments in Microsoft (+3.3% of the total portfolio return), Alphabet (+1.9%) and Apple (+1.6%). Microsoft surged to a record high over the period after its cloud business helped the software giant beat earnings and revenue forecasts and then held up relatively well when covid-19 hit because it was judged a stock that would benefit from greater online activity. Alphabet, the owner of Google, gained as it reported higher earnings over the 12 months and as online advertising held up better than expected during the pandemic. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and trade tensions between China and the US fell short of Beijing placing tariffs on iPhones.

The stocks that detracted from performance included the investments in Yum! Brands (-0.9%), Anheuser-Busch InBev (-0.9%), and HCA Healthcare (-0.3%). Yum! Brands fell after posting downbeat earnings and after its KFC, Pizza Hut and Taco Bell outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus. Anheuser-Busch InBev fell after the world's biggest brewer said that a decline in beer sales in Brazil, China and the US slowed profit growth and the company said it expects only "moderate" full-year earnings growth, down from "strong" before. HCA Healthcare dropped on disappointing earnings and after elective surgeries were deferred as hospitals built capacity to respond to the pandemic and investors weighed the impact of the unprecedented jump in US unemployment on HCA's revenue.

OUTLOOK

The outlooks for the economy and equity markets remain uncertain. Key will be the pace of economic reopening and policymaker responses. We continue to see four scenarios.

The best scenario is a V-shaped recovery; a fleeting recession. This would require a quick and successful reopening supported by policymakers, with most furloughed workers returning to their pre-pandemic hours. This scenario still appears relatively unlikely.

The worst scenario is a depression, where reopening is very slow and there is a policy error, hurting employment and output. This would be the worst outcome for markets but also appears relatively unlikely.

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan Global Fund	**9.0**	**15.3**	**12.0**	**14.3**	**15.8**	**12.0**
Magellan Global Fund (Hedged)	**4.5**	**10.4**	**9.8**	**10.9**	**-**	**10.9**

1 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). Magellan Global Fund inception 1 July 2007 (inclusive), Magellan Global Fund (Hedged) inception 1 July 2013 (inclusive). Returns denoted in AUD.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. The downturn that occurred after the global financial recession lay between these two scenarios. It is still challenging to definitively predict if the current downturn will be more or less severe than the recession of 2008-2009.

Due to our cautious economic outlook and the risks confronting equities, we raised the cash position in the strategy from 8% to 15% over the 12 months.[2]

PORTFOLIO POSITIONING[2]

Top-10 holdings at 30 June 2020

Security	Weight (%)
Microsoft Corporation	8.1
Tencent Holdings Ltd	6.7
Alibaba Group Holding Ltd	6.6
Alphabet Inc	6.0
Facebook Inc - Class A Shares	5.7
Reckitt Benckiser Group	4.7
Starbucks Corporation	4.3
Novartis AG	4.2
Crown Castle International Corporation	4.0
SAP SE	3.9
Total	**54.2**

Notwithstanding our cautious outlook, we believe our portfolio of 21 high-quality businesses will generate a satisfactory return over the medium to long term.

We have positioned our portfolio cautiously by holding a substantial amount of cash and by investing in businesses that should be largely resilient, or even beneficiaries, in the current environment.

Over the long term, we believe that investing in a portfolio of high-quality defensive and growth businesses bought at reasonable prices will generate attractive returns and prove resilient in times of economic uncertainty. High-quality defensive businesses can be expected to protect the capital of their investors while producing attractive returns through the economic cycle. High-quality growth businesses that drive growth from innovation and gains in market share are more attractive not only because their growth is typically higher than average but also because it makes them less reliant on the underlying strength of the economy. We seek businesses that have a high likelihood of success for decades to come. As always, we evaluate prospective returns in relation to the type and degree of risk we are taking.

The core investment themes in our portfolio at 30 June 2020 were:

- A range of highly resilient businesses that represented 29% of the portfolio. These businesses are largely unaffected by measures that have been enacted to combat the pandemic as their services are either essential or in increasing demand. More importantly, these characteristics give these stocks a high degree of resiliency in a weak economy. In the current environment, we do not know the ultimate effect the coronavirus will have on society and the economy. These investments offer attractive risk-adjusted returns under a wide range of potential economic outcomes. They comprise:
  - Consumer staples at 11% of the portfolio (Nestlé, PepsiCo and the UK-based Reckitt Benckiser).
  - A communications infrastructure business and three regulated US utilities at 14% of the portfolio (Crown Castle International, Eversource Energy, Xcel Energy and WEC Energy).
  - A pharmaceutical business, Novartis of Switzerland, at 4% of the portfolio.
- The Chinese-consumer-related stocks (technology-platform companies Alibaba and Tencent and consumer companies Estée Lauder of the US, LVMH of France and Starbucks) that comprised 20% of the portfolio. The Chinese middle class is forecast to double in size over the next five to 10 years with the high-end cohort growing even faster. Alibaba and Tencent are structural winners in the Chinese economy as they own the leading ecommerce and gaming and social media platforms respectively. They are also the leading cloud-computing and digital-payment businesses in China. The consumer businesses have strong brands and are well placed to benefit as China's middle and upper classes expand.
- Advertising technology-platform companies (Alphabet, the owner of Google, and Facebook) that represented 12% of the portfolio. These companies benefit from the shift in marketing expenditure from traditional media properties to digital platforms.
- Enterprise-software companies (Microsoft and SAP of Germany) that comprised 12% of the portfolio. These companies are integrated within the operations of their business customers, which lowers the risk these customers will switch software vendors. They are benefiting from the transformational growth in cloud computing, which is likely to become even more popular in the coming years.
- Payment-platform companies (Mastercard and Visa) that represented 6% of the portfolio. These are classic 'network effect' business models that connect millions of merchants with billions of cardholders. They provide the 'rails' upon which global electronic payment systems run.
- An investment in two quick-service restaurants (McDonald's and Yum! Brands) that represented 5% of the portfolio. These businesses have faced some short-term challenges due to restrictions to slow the spread of the virus. Over the longer term, the strength of their brands and resiliency to a weak economy are attractive.
- A 15% holding in cash (held in US dollars).[2]

Hamish Douglass

2 For the Magellan Global Fund. Portfolio positioning may not sum to 100% due to rounding.

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MAGELLAN GLOBAL EQUITIES FUND (MGE)
MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED) (MHG)

Hamish Douglass, Chairman and Chief Investment Officer

The Magellan Global Equities Fund (Managed Fund) is an ASX-listed portfolio (ASX:MGE) that invests in the world's best 20 to 40 global stocks. The portfolio is a core holding that aims to deliver 9% p.a. over the economic cycle while reducing the risk of permanent capital loss. The hedged version of the portfolio, Magellan Global Equities Fund (Currency Hedged) (Managed Fund) (ASX:MHG) aims to protect returns from currency movements.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus offset the damage from the coronavirus to economic activity, company profits and investor confidence. Over the last three months of 2019-2020, stocks recovered from post-virus lows after an ebbing in infection rates in developed countries allowed governments to ease restrictions on everyday life, even though the economic hit from the virus was so stark that the US entered its first recession in nearly 11 years.

The portfolio recorded a return after fees of 8.9% for the 12 months while the hedged version's return after fees was 5.0%. The stocks that performed best included the investments in Microsoft (+3.3% of the total portfolio return), Alphabet (+1.9%) and Apple (+1.6%). Microsoft surged to a record high over the period after its cloud business helped the software giant beat earnings and revenue forecasts and then held up relatively well when covid-19 hit because it was judged a stock that would benefit from greater online activity. Alphabet, the owner of Google, gained as it reported higher earnings over the 12 months and as online advertising held up better than expected during the pandemic. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and trade tensions between China and the US fell short of Beijing placing tariffs on iPhones.

The stocks that detracted from performance included the investments in Yum! Brands (-0.9%), Anheuser-Busch InBev (-0.9%), and HCA Healthcare (-0.3%). Yum! Brands fell after posting downbeat earnings and after its KFC, Pizza Hut and Taco Bell outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus. Anheuser-Busch InBev fell after the world's biggest brewer said that a decline in beer sales in Brazil, China and the US slowed profit growth and the company said it expects only "moderate" full-year earnings growth, down from "strong" before. HCA Healthcare dropped on disappointing earnings and after elective surgeries were deferred as hospitals built capacity to respond to the pandemic and investors weighed the impact of the unprecedented jump in US unemployment on HCA's revenue.

OUTLOOK

The outlooks for the economy and equity markets remain uncertain. Key will be the pace of economic reopening and policymaker responses. We continue to see four scenarios.

The best scenario is a V-shaped recovery; a fleeting recession. This would require a quick and successful reopening supported by policymakers, with most furloughed workers returning to their pre-pandemic hours. This scenario still appears relatively unlikely.

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan Global Equities Fund (MGE)	**8.9**	**15.2**	**12.0**	**-**	**-**	**11.3**
Magellan Global Equities Fund (Currency Hedged) (MHG)	**5.0**	**10.6**	**-**	**-**	**-**	**9.3**

1 Calculations are based on the ASX released net asset value with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Magellan Global Equities Fund inception 2 March 2015 (inclusive), Magellan Global Equities Fund (Currency Hedged) inception 4 August 2015 (inclusive). Returns denoted in AUD.

The worst scenario is a depression, where reopening is very slow and there is a policy error, hurting employment and output. This would be the worst outcome for markets but also appears relatively unlikely.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. The downturn that occurred after the global financial recession lay between these two scenarios. It is still challenging to definitively predict if the current downturn will be more or less severe than the recession of 2008-2009.

Due to our cautious economic outlook and the risks confronting equities, we raised the cash position in the strategy from 8% to 15% over the 12 months.[2]

PORTFOLIO POSITIONING[2]

Top-10 holdings at 30 June 2020

Security	Weight (%)
Microsoft Corporation	8.1
Tencent Holdings Ltd	6.7
Alibaba Group Holding Ltd	6.7
Alphabet Inc	6.0
Facebook Inc - Class A Shares	5.8
Reckitt Benckiser Group	4.7
Starbucks Corporation	4.3
Novartis AG	4.2
Crown Castle International Corporation	4.0
SAP SE	3.9
Total	**54.4**

Notwithstanding our cautious outlook, we believe our portfolio of 21 high-quality businesses will generate a satisfactory return over the medium to long term.

We have positioned our portfolio cautiously by holding a substantial amount of cash and by investing in businesses that should be largely resilient, or even beneficiaries, in the current environment.

Over the long term, we believe that investing in a portfolio of high-quality defensive and growth businesses bought at reasonable prices will generate attractive returns and prove resilient in times of economic uncertainty. High-quality defensive businesses can be expected to protect the capital of their investors while producing attractive returns through the economic cycle. High-quality growth businesses that drive growth from innovation and gains in market share are more attractive not only because their growth is typically higher than average but also because it makes them less reliant on the underlying strength of the economy. We seek businesses that have a high likelihood of success for decades to come. As always, we evaluate prospective returns in relation to the type and degree of risk we are taking.

The core investment themes in our portfolio at 30 June 2020 were:

- A range of highly resilient businesses that represented 29% of the portfolio. These businesses are largely unaffected by measures that have been enacted to combat the pandemic as their services are either essential or in increasing demand. More importantly, these characteristics give these stocks a high degree of resiliency in a weak economy. In the current environment, we do not know the ultimate effect the coronavirus will have on society and the economy. These investments offer attractive risk-adjusted returns under a wide range of potential economic outcomes. They comprise:
  - Consumer staples at 11% of the portfolio (Nestlé, PepsiCo and the UK-based Reckitt Benckiser).
  - A communications infrastructure business and three regulated US utilities at 14% of the portfolio (Crown Castle International, Eversource Energy, Xcel Energy and WEC Energy).
  - A pharmaceutical business, Novartis of Switzerland, at 4% of the portfolio.
- The Chinese-consumer-related stocks (technology-platform companies Alibaba and Tencent and consumer companies Estée Lauder of the US, LVMH of France and Starbucks) that comprised 21% of the portfolio. The Chinese middle class is forecast to double in size over the next five to 10 years with the high-end cohort growing even faster. Alibaba and Tencent are structural winners in the Chinese economy as they own the leading ecommerce and gaming and social media platforms respectively. They are also the leading cloud-computing and digital-payment businesses in China. The consumer businesses have strong brands and are well placed to benefit as China's middle and upper classes expand.
- Advertising technology-platform companies (Alphabet, the owner of Google, and Facebook) that represented 12% of the portfolio. These companies benefit from the shift in marketing expenditure from traditional media properties to digital platforms.
- Enterprise-software companies (Microsoft and SAP of Germany) that comprised 12% of the portfolio. These companies are integrated within the operations of their business customers, which lowers the risk these customers will switch software vendors. They are benefiting from the transformational growth in cloud computing, which is likely to become even more popular in the coming years.
- Payment-platform companies (Mastercard and Visa) that represented 6% of the portfolio. These are classic 'network effect' business models that connect millions of merchants with billions of cardholders. They provide the 'rails' upon which global electronic payment systems run.
- An investment in two quick-service restaurants (McDonald's and Yum! Brands) that represented 5% of the portfolio. These businesses have faced some short-term challenges due to restrictions to slow the spread of the virus. Over the longer term, the strength of their brands and resiliency to a weak economy are attractive.
- A 15% holding in cash (held in US dollars).[2]

Hamish Douglass

2 For the Magellan Global Equities Fund. Portfolio positioning may not sum to 100% due to rounding.

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MAGELLAN GLOBAL TRUST (MGG)

Hamish Douglass, Chairman and Chief Investment Officer

Stefan Marcionetti, Portfolio Manager

The Magellan Global Trust is an ASX-listed trust (ASX: MGG) that invests in the world's best 15 to 35 global stocks. The trust is a core holding that aims to deliver a cash yield of 4% p.a. while delivering attractive risk-adjusted returns over the medium to long term and protecting investors from the risk of permanent capital losses.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus offset the damage from the coronavirus to economic activity, company profits and investor confidence. Over the last three months of 2019-2020, stocks recovered from post-virus lows after an ebbing in infection rates in developed countries allowed governments to ease restrictions on everyday life, even though the economic hit from the virus was so stark that the US entered its first recession in nearly 11 years.

The portfolio recorded a return after fees of 3.7% for the 12 months. The stocks that performed best included the investments in Microsoft (+3.9% of the total portfolio return), Alphabet (+2.1%) and Apple (+1.9%). Microsoft surged to a record high over the period after its cloud business helped the software giant beat earnings and revenue forecasts and then held up relatively well when covid-19 hit because it was judged a stock that would benefit from greater online activity. Alphabet, the owner of Google, gained as it reported higher earnings over the 12 months and as online advertising held up better than expected during the pandemic. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and trade tensions between China and the US fell short of Beijing placing tariffs on iPhones.

The stocks that detracted from performance included the investments in Yum! Brands (-1.2%) Anheuser-Busch InBev (-1.0%) and HCA Healthcare (-0.5%). Yum! Brands fell after posting downbeat earnings and after its KFC, Pizza Hut and Taco Bell outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus. Anheuser-Busch InBev fell after the world's biggest brewer said that a decline in beer sales in Brazil, China and the US slowed profit growth and the company said it expects only "moderate" full-year earnings growth, down from "strong" before. HCA Healthcare dropped on disappointing earnings and after elective surgeries were deferred as hospitals built capacity to respond to the pandemic and investors weighed the impact of the unprecedented jump in US unemployment on HCA's revenue.

OUTLOOK

The outlooks for the economy and equity markets remain uncertain. Key will be the pace of economic reopening and policymaker responses. We continue to see four scenarios.

The best scenario is a V-shaped recovery; a fleeting recession. This would require a quick and successful reopening supported by policymakers, with most furloughed workers returning to their pre-pandemic hours. This scenario still appears relatively unlikely.

The worst scenario is a depression, where reopening is very slow and there is a policy error, hurting employment and output. This would be the worst outcome for markets but also appears relatively unlikely.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. The downturn that occurred after the global financial recession lay between these two scenarios. It is still challenging to definitively predict if the current downturn will be more or less severe than the recession of 2008-2009.

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan Global Trust (MGG)	**3.7**	–	–	–	–	**11.4**

1 Calculations are based on the ASX released net asset value with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Trust inception date 18 October 2017 (inclusive). Returns denoted in AUD.

Due to our cautious economic outlook and the risks confronting equities, we raised the cash position in the strategy from 12% to 18% over the 12 months.

PORTFOLIO POSITIONING[2]

Top-10 holdings at 30 June 2020

Security	Weight (%)
Microsoft Corporation	9.4
Facebook Inc - Class A Shares	6.6
Alibaba Group Holding Ltd	6.0
Alphabet Inc	5.9
Tencent Holdings Ltd	4.9
Reckitt Benckiser Group	4.4
Atmos Energy Corporation	3.8
Visa Inc	3.3
Eversource Energy	3.1
MasterCard Inc	3.0
Total	**50.4**

Notwithstanding our cautious outlook, we believe our portfolio of 23 high-quality businesses will generate a satisfactory return over the medium to long term.

We have positioned our portfolio cautiously by holding a substantial amount of cash and by investing in businesses that should be largely resilient, or even beneficiaries, in the current environment.

Over the long term, we believe that investing in a portfolio of high-quality defensive and growth businesses bought at reasonable prices will generate attractive returns and prove resilient in times of economic uncertainty. High-quality defensive businesses can be expected to protect the capital of their investors while producing attractive returns through the economic cycle. High-quality growth businesses that drive growth from innovation and gains in market share are more attractive not only because their growth is typically higher than average but also because it makes them less reliant on the underlying strength of the economy. We seek businesses that have a high likelihood of success for decades to come. As always, we evaluate prospective returns in relation to the type and degree of risk we are taking.

The core investment themes in our portfolio at 30 June 2020 were:

- A range of highly resilient businesses that represented 27% of the portfolio. These businesses are largely unaffected by measures that have been enacted to combat the pandemic as their services are either essential or in increasing demand. More importantly, these characteristics give these stocks a high degree of resiliency in a weak economy. In the current environment, we do not know the ultimate effect the coronavirus will have on society and the economy. These investments offer attractive risk-adjusted returns under a wide range of potential economic outcomes. They comprise:
  - Consumer staples at 9% of the portfolio (Nestlé, PepsiCo and the UK-based Reckitt Benckiser).
  - A communications infrastructure business and four regulated US utilities at 15% of the portfolio (Crown Castle International, Atmos Energy, Eversource Energy, Xcel Energy and WEC Energy).
  - A pharmaceutical business, Novartis of Switzerland, at 3% of the portfolio.
- The Chinese-consumer-related stocks (technology-platform companies Alibaba and Tencent and consumer companies Estée Lauder of the US and Starbucks) that comprised 16% of the portfolio. The Chinese middle class is forecast to double in size over the next five to 10 years with the high-end cohort growing even faster. Alibaba and Tencent are structural winners in the Chinese economy as they own the leading ecommerce platforms and gaming/social media respectively. They are also the leading cloud-computing and digital-payment businesses in China. The consumer businesses have strong brands and are well placed to benefit as China's middle and upper classes expand.
- Advertising technology-platform companies (Alphabet, the owner of Google, and Facebook) that represented 12% of the portfolio. These companies benefit from the shift in marketing expenditure from traditional media properties to digital platforms.
- Enterprise-software companies (SAP of Germany and Microsoft) that comprised 12% of the portfolio. These companies are integrated within the operations of their business customers, which lowers the risk these customers will switch software vendors. They are benefiting from the transformational growth in cloud computing, which is likely to become even more popular in the coming years.
- Payment-platform companies (Mastercard and Visa) that represented 6% of the portfolio. These are classic 'network effect' business models that connect millions of merchants with billions of cardholders. They provide the 'rails' upon which global electronic payment systems run.
- An investment in two quick-service restaurants (McDonald's and Yum! Brands) that represented 4% of the portfolio. These businesses have faced some short-term challenges due to restrictions to slow the spread of the virus. Over the longer term, the strength of their brands and resiliency to a weak economy are attractive.
- An investment in HCA Healthcare, a leading US hospital group, that represented 2% of the portfolio. Despite exposure to the pandemic and a weak economy, over the longer term HCA is well placed to outperform the broader hospital sector.
- An investment in CME Group, a leading financial derivatives exchange, that represented 1% of the portfolio. CME benefits from very strong market positions in its leading contracts and acts as a natural hedge against market volatility as its trading volume typically rises in times of heightened uncertainty.
- A 18% holding in cash (held in US dollars).

Hamish Douglass

Stefan Marcionetti

2 Portfolio positioning may not sum to 100% due to rounding.

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MAGELLAN HIGH CONVICTION FUND

Hamish Douglass, Chairman and Chief Investment Officer

Chris Wheldon, Portfolio Manager

The Magellan High Conviction Fund is a more concentrated and less constrained version of Magellan's core global strategy. The portfolio seeks to deliver an attractive risk-adjusted absolute return by investing in eight to 12 of the world's best global stocks. The portfolio employs an active currency hedging program to reduce the impact of foreign currency exposure when the Australian dollar trades outside its historical range.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus just offset the damage from the coronavirus to economic activity, company profits and investor confidence. Over the last three months of 2019-2020, stocks recovered from post-virus lows after an ebbing in infection rates in developed countries allowed governments to ease restrictions on everyday life, even though the economic hit from the virus was so stark that the US entered its first recession in nearly 11 years.

Both the Class A and Class B units recorded a return after fees of 6.1% for the 12 months. The stocks that performed best included the investments in Microsoft (+5.5% of the total portfolio return), Alphabet (+3.6%) and Apple (+2.8%). Microsoft surged to a record high over the period after its cloud business helped the software giant beat earnings and revenue forecasts and then held up relatively well when covid-19 hit because it was judged a stock that would benefit from greater online activity. Alphabet, the owner of Google, gained as it reported higher earnings over the 12 months and as online advertising held up better than expected during the pandemic. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and trade tensions between China and the US fell short of Beijing placing tariffs on iPhones.

The stocks that detracted from performance included the investments in Yum! Brands (-1.5%) and Starbucks (-0.5%). Yum! Brands fell after posting downbeat earnings and after its KFC, Pizza Hut and Taco Bell outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus. Starbucks fell after an announcement in August that a higher tax rate and fewer buybacks would result in 2020 earnings-per-share growth below its long-term target of at least 10% and after its outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus.

OUTLOOK

The outlooks for the economy and equity markets remain uncertain. Key will be the pace of economic reopening and policymaker responses. We continue to see four scenarios.

The best scenario is a V-shaped recovery; a fleeting recession. This would require a quick and successful reopening supported by policymakers, with most furloughed workers returning to their pre-pandemic hours. This scenario still appears relatively unlikely.

The worst scenario is a depression, where reopening is very slow and there is a policy error, hurting employment and output. This would be the worst outcome for markets but also appears relatively unlikely.

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan High Conviction Fund (Class A)	**6.1**	**12.6**	**11.2**	**14.7**	**-**	**14.7**
Magellan High Conviction Fund (Class B)	**6.1**	**-**	**-**	**-**	**-**	**10.1**

1 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). Magellan High Conviction Fund (Class A) inception 1 July 2013 (inclusive), Magellan High Conviction Fund (Class B) inception 15 November 2017 (inclusive). Returns denoted in AUD.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. The downturn that occurred after the global financial recession lay between these two scenarios. It is still challenging to definitively predict if the current downturn will be more or less severe than the recession of 2008-2009.

Due to our cautious economic outlook and the risks confronting equities, we boosted the cash holding from 11% to 23% of the portfolio over the 12 months.

PORTFOLIO POSITIONING[2]

Holdings at 30 June 2020

Security	Weight (%)
Microsoft Corporation	13.7
Alibaba Group Holding Ltd	13.6
Tencent Holdings Ltd	9.4
Alphabet Inc	8.5
Facebook Inc - Class A Shares	7.8
Starbucks Corporation	7.3
SAP SE	5.9
Visa Inc	5.7
Estee Lauder - Class A Shares	5.0
Total	76.9

Notwithstanding our cautious outlook, we believe our portfolio of nine high-quality businesses will generate a satisfactory return over the medium to long term.

We have positioned our portfolio cautiously by holding a substantial amount of cash and by investing in businesses that should be largely resilient, or even beneficiaries, in the current environment.

Over the long term, we believe that investing in a concentrated portfolio of high-quality businesses, our best ideas, purchased at reasonable prices will generate attractive returns and prove resilient in times of economic uncertainty. Near-term portfolio resiliency is provided by the balance sheet strength and advantaged competitive positions of our holdings, which we expect to remain highly profitable through the economic cycle given the necessity or desirability of their offering. Longer-term portfolio returns will be supported by the favourable industry and geographic positioning of our holdings, recognising that each company's advantages provide conviction that it will benefit disproportionately from these enduring growth tailwinds and, critically, see this growth translated into rising shareholder value over time. As always, we evaluate these prospective returns in relation to the type and degree of risk we are taking.

The core investment themes in our portfolio at 30 June 2020 were:

- The Chinese-consumer-related stocks (technology-platform companies Alibaba and Tencent and consumer companies Estée Lauder of the US and Starbucks) that comprised 35% of the portfolio. The Chinese middle class is forecast to double in size over the next five to 10 years with the high-end cohort growing even faster. Alibaba and Tencent are structural winners in the Chinese economy as they own the leading ecommerce and gaming/social media platforms respectively. They are also the leading cloud-computing and digital-payment businesses in China. The consumer businesses have strong brands and are well placed to benefit as China's middle- and upper-classes expand.
- Enterprise-software companies (Microsoft and SAP of Germany) that comprised 20% of the portfolio. These companies are integrated within the operations of their business customers, which lowers the risk these customers will switch software vendors. They are benefiting from the transformational growth in cloud computing, which is likely to become even more popular in the coming years.
- Advertising technology-platform companies (Alphabet, the owner of Google, and Facebook) that represented 16% of the portfolio. These companies benefit from the shift in marketing expenditure from traditional media properties to digital platforms.
- A payment-platform company (Visa) that represented 6% of the portfolio. Visa possesses a classic 'network effect' business model that connects millions of merchants with billions of cardholders. They provide the 'rails' upon which global electronic payment systems run.
- A 23% holding in cash, held primarily in US dollars.

Hamish Douglass **Chris Wheldon**

2 Portfolio positioning may not sum to 100% due to rounding.

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MAGELLAN HIGH CONVICTION TRUST (MHH)

Hamish Douglass, Chairman and Chief Investment Officer

Chris Wheldon, Portfolio Manager

The Magellan High Conviction Trust is an ASX-listed trust (ASX: MHH) that is a more concentrated and less constrained version of Magellan's core global strategy. The trust seeks to deliver an attractive risk-adjusted absolute return by investing in eight to 12 of the world's best global stocks. The trust employs an active currency-hedging program to reduce the impact of foreign currency exposure when the Australian dollar trades outside its historical range.

PERFORMANCE

Global stocks rose from mid-October 2019, when the trust was launched, to June 2020 after huge fiscal and monetary stimulus just offset the damage from the coronavirus to economic activity, company profits and investor confidence. Over the last three months of 2019-2020, stocks recovered from post-virus lows after an ebbing in infection rates in developed countries allowed governments to ease restrictions on everyday life, even though the economic hit from the virus was so stark that the US entered its first recession in nearly 11 years.

The portfolio recorded a return after fees of 3.5% from 11 October 2019 until 30 June 2020. The stocks that performed best included the investments in Microsoft (+4.5% of the total portfolio return), Alibaba (+2.5%) and Tencent Holdings (+1.3%). Microsoft surged to a record high over the period after its cloud business helped the software giant beat earnings and revenue forecasts and then held up relatively well when covid-19 hit because it was judged a stock that would benefit from greater online activity. Alibaba rose on better-than-expected earnings, a successful IPO in Hong Kong and the likely boost to earnings from China's switch to online during the pandemic. Tencent rose on an improving earnings outlook and as the virus forced Chinese citizens to work from home and engage more with the company's suite of digital services.

The stocks that detracted from performance included the investments in Yum! Brands (-1.5%), Starbucks (-1.1%)and Estée Lauder (-0.3%). Yum! Brands fell after posting downbeat earnings and after its KFC, Pizza Hut and Taco Bell outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus. Starbucks fell after its outlets were closed when countries ordered lockdowns or restrictions on restaurants to stop the transmission of the virus. Estée Lauder was hit by retail closures, particularly in its highly profitable travel retail channel.

OUTLOOK

The outlooks for the economy and equity markets remain uncertain. Key will be the pace of economic reopening and policymaker responses. We continue to see four scenarios.

The best scenario is a V-shaped recovery; a fleeting recession. This would require a quick and successful reopening supported by policymakers, with most furloughed workers returning to their pre-pandemic hours. This scenario still appears relatively unlikely.

The worst scenario is a depression, where reopening is very slow and there is a policy error, hurting employment and output. This would be the worst outcome for markets but also appears relatively unlikely.

The two middle scenarios are a U-shaped recovery from a recession and a prolonged and deep recession. The downturn that occurred after the global financial recession lay between these two scenarios. It is still challenging to definitively predict if the current downturn will be more or less severe than the recession of 2008-2009.

Due to the cautious economic outlook and the risks confronting equities, we boosted the cash holding from approximately 9% of the portfolio at inception to 22% at 30 June 2020.

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan High Conviction Trust (MHH)	-	-	-	-	-	**3.5**

1 Calculations are based on the ASX released net asset value with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Trust inception date 11 October 2019 (inclusive). Returns denoted in AUD.

PORTFOLIO POSITIONING[2]

Holdings at 30 June 2020

Security	Weight (%)
Microsoft Corporation	13.8
Alibaba Group Holding Ltd	13.7
Tencent Holdings Ltd	9.5
Alphabet Inc	8.6
Facebook Inc - Class A Shares	7.8
Starbucks Corporation	7.4
SAP SE	5.9
Visa Inc	5.7
Estee Lauder - Class A Shares	5.1
Total	77.5

Notwithstanding our cautious outlook, we believe our portfolio of nine high-quality businesses will generate a satisfactory return over the medium to long term.

We have positioned our portfolio cautiously by holding a substantial amount of cash and by investing in businesses that should be largely resilient, or even beneficiaries, in the current environment.

Over the long term, we believe that investing in a concentrated portfolio of high-quality businesses, our best ideas, purchased at reasonable prices will generate attractive returns and prove resilient in times of economic uncertainty. Near-term portfolio resiliency is provided by the balance sheet strength and advantaged competitive positions of our holdings, which we expect to remain highly profitable through the economic cycle given the necessity or desirability of their offering. Longer-term portfolio returns will be supported by the favourable industry and geographic positioning of our holdings, recognising that each company's advantages provide conviction that it will benefit disproportionately from these enduring growth tailwinds and, critically, see this growth translated into rising shareholder value over time. As always, we evaluate these prospective returns in relation to the type and degree of risk we are taking.

The core investment themes in our portfolio at 30 June 2020 were:

- The Chinese-consumer-related stocks (technology-platform companies Alibaba and Tencent and consumer companies Estée Lauder of the US and Starbucks) that comprised 35% of the portfolio. The Chinese middle class is forecast to double in size over the next five to 10 years with the high-end cohort growing even faster. Alibaba and Tencent are structural winners in the Chinese economy as they own the leading ecommerce and gaming/social media platforms respectively. They are also the leading cloud-computing and digital-payment businesses in China. The consumer businesses have strong brands and are well placed to benefit as China's middle- and upper-classes expand.
- Enterprise-software companies (Microsoft and SAP of Germany) that comprised 20% of the portfolio. These companies are integrated within the operations of their business customers, which lowers the risk these customers will switch software vendors. They are benefiting from the transformational growth in cloud computing, which is likely to become even more popular in the coming years.
- Advertising technology-platform companies (Alphabet, the owner of Google, and Facebook) that represented 16% of the portfolio. These companies benefit from the shift in marketing expenditure from traditional media properties to digital platforms.
- A payment-platform company (Visa) that represented 6% of the portfolio. Visa possesses a classic 'network effect' business model that connects millions of merchants with billions of cardholders. It provides the 'rails' upon which global electronic payment systems run.
- A 22% holding in cash, held primarily in US dollars.

Hamish Douglass **Chris Wheldon**

2 Portfolio positioning may not sum to 100% due to rounding.

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MAGELLAN INFRASTRUCTURE FUND
MAGELLAN INFRASTRUCTURE FUND (UNHEDGED)

Gerald Stack,
Head of Investments
and Head of
Infrastructure

The Magellan Infrastructure Fund seeks to provide efficient access to the stable returns offered by infrastructure and utility stocks, while protecting capital in adverse markets. Infrastructure and utility stocks that will help achieve these aims generally have strong underlying financial performance over the medium to long term, which is expected to translate into reliable, inflation-linked returns. The Fund typically holds between 20 and 40 stocks. The unhedged version of the portfolio makes no attempt to protect returns from currency movements.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus offset the damage from the coronavirus to economic activity, company profits and investor confidence. But infrastructure stocks fell over the 12 months as the restrictions on everyday activity, including air and road travel, hit these stocks to a greater degree.

The portfolio recorded a return after fees of minus 8.9% for the 12 months, 7.3% above the portfolio's benchmark (S&P Global Infrastructure Index A$ Hedged Net Total Return), while the unhedged version recorded a return of minus 6.8%. Stocks that detracted the most included the investments in the airport operators ADP of France (-1.6%), Aena of Spain (-1.5%) and Sydney Airport (-1.5%). ADP, which runs the airports of Paris, Aena, the world's largest airport operator, and Sydney Airport dived after the outbreak of the virus that causes the illness called covid-19 prompted governments to close borders and order their populations not to travel to control the pandemic.

Stocks that contributed the most included the investments in Crown Castle International of the US (+1.1%), Koninklijke Vopak of the Netherlands (+0.6%) and US utilities Evergy (+0.6%). Crown Castle rose as investors judged that the company that owns more than 40,000 communications towers in the US that provide co-location space to wireless carriers would benefit from higher demand for data across mobile telephony and the internet as a locked-down world went online. Vopak gained as demand for oil storage surged as the oil price fell. The US integrated power utility Evergy rose as investors sought the best defensive stocks.

OUTLOOK

Notwithstanding our expectations for greater volatility in the short to medium term driven by the covid-19 crisis, we are confident that the underlying businesses that we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses that we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices over the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We expect the strategy to provide

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan Infrastructure Fund	-8.9	4.3	7.7	10.3	12.9	7.6
Magellan Infrastructure Fund (Unhedged)	-6.8	7.0	8.6	12.0	-	12.0

1 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). Magellan Infrastructure Fund inception 1 July 2007 (inclusive), Magellan Infrastructure Fund (Unhedged) inception date 1 July 2013 (inclusive). Returns denoted in AUD.

investors with real returns of about 5% above inflation over the longer term. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, given the resilient nature of earnings and the structural linkage of those earnings to inflation, investment returns generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them attractive and an investment in listed infrastructure can be expected to reward patient investors with a long-term time frame.

PORTFOLIO POSITIONING

Top-10 holdings at 30 June 2020[2]

Security	Weight (%)
Transurban Group	6.1
Atmos Energy Corporation	5.8
Crown Castle International	5.2
Red Electrica Corporacion	5.0
Eversource Energy	4.6
Enbridge Inc	4.5
Sempra Energy	4.5
Xcel Energy Inc	4.3
Vopak NV	4.2
Snam SpA	3.6
Total	**47.8**

As noted earlier, we are cautious about the path ahead and have positioned the infrastructure portfolios with a defensive mindset.

At 31 December 2019, the investment portfolio had an allocation of about 55% to infrastructure, including an allocation of about 18% to airports and about 40% to utilities with less than 5% in cash.

At the end of June 2020, the investment portfolio comprised about 45% regulated utilities, 45% infrastructure and 10% in cash.

As noted above, following the onset of the covid-19 crisis we adopted a more defensive positioning. We reduced exposure to infrastructure, and particularly to airports, and increased our allocation to regulated utilities and cash. Airports businesses were significantly affected by the crisis and the allocation to airports hurt the investment performance of the portfolio.

We have increased the allocation to regulated utilities. Regulated utilities might face some short-term declines in earnings but we do not expect significant changes to their long-term earnings outlooks. Their earnings are highly defensive and regulators generally allow for losses due to issues outside of the control of the regulated utility to be recovered over the medium term.

Infrastructure businesses typically face less intrusive regulation than utilities that allows their earnings to rise and fall with the volume of business they do. As the government-mandated quarantine has reduced the volume of aviation, traffic and rail services so too the earnings of airports, toll roads and railroads have declined in the short term. Experience of previous demand shocks in the transport industry gives us confidence that the demand for transport will recover over the longer term, which will lead to resilient earnings and dividends.

Airports are the infrastructure sector most challenged by the crisis. Airports provide essential services and we are confident that the demand for their services will return over time. However, the duration of the lockout and any following economic downturn will be key to how these companies recover. Much uncertainty remains around the near-term outlook for the aviation sector and we remain cautious about the investment prospects for airports compared with other infrastructure sectors. As a consequence, we have reduced the allocation to airports.

We have maintained the allocation to communications infrastructure and energy infrastructure:

- The portfolio has an allocation to the US-based communications infrastructure company Crown Castle International. We expect the earnings of communications infrastructure companies to be highly defensive in response to this crisis. The demand for data across mobile telephony and the internet is expected to grow strongly and more investment in telecommunications infrastructure is necessary for this demand to be satisfied. Recent reporting from communications infrastructure companies suggests that the covid-19 crisis has not materially slowed the pace of development of telecommunications infrastructure that is central to future earnings growth for communications infrastructure companies.
- The energy infrastructure companies in the strategy generate earnings by storing oil, gas and chemicals or transporting oil and gas across their pipeline networks. These companies have limited exposure to changes in the oil price and, while the revenues they earn from transporting oil and gas can change with movements in volumes, underwritten 'take or pay volumes' usually account for the majority of revenues so we assess their exposure to volume decreases as low. If the customers of these businesses have solvency issues then this could cause problems, but access to energy infrastructure services is essential to their ability to earn revenues.

Gerald Stack

2 Top-10 holdings of the Magellan Infrastructure Fund.

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MAGELLAN INFRASTRUCTURE FUND (CURRENCY HEDGED) (MICH)

Gerald Stack,
Head of Investments
and Head of
Infrastructure

The Magellan Infrastructure Fund (Currency Hedged)(Managed Fund) is an ASX-listed portfolio (ASX:MICH) that seeks to provide efficient access to the stable returns offered by infrastructure and utility stocks, while protecting capital in adverse markets. Infrastructure and utility stocks that will help achieve these aims generally have strong underlying financial performance over the medium to long term, which is expected to translate into reliable, inflation-linked returns. The Fund typically holds between 20 and 40 stocks.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus offset the damage from the coronavirus to economic activity, company profits and investor confidence. But infrastructure stocks fell over the 12 months as the restrictions on everyday activity, including air and road travel, hit these stocks to a greater degree.

The portfolio recorded a return after fees of minus 8.4% for the 12 months, 7.8% above the benchmark (S&P Global Infrastructure Index A$ Hedged Net Total Return). Stocks that detracted the most included the investments in the airport operators ADP of France (-1.6%), Aena of Spain (-1.5%) and Sydney Airport (-1.5%). ADP, which runs the airports of Paris, Aena, the world's largest airport operator, and Sydney Airport dived after the outbreak of the virus that causes the illness called covid-19 prompted governments to close borders and order their populations not to travel to control the pandemic.

Stocks that contributed the most included the investments in Crown Castle International of the US (+1.1%), Koninklijke Vopak of the Netherlands (+0.6%) and US utilities Evergy (+0.6%). Crown Castle rose as investors judged that the company that owns more than 40,000 communications towers in the US that provide co-location space to wireless carriers would benefit from higher demand for data across mobile telephony and the internet as a locked-down world went online. Vopak gained as demand for oil storage surged as the oil price fell. The US integrated power utility Evergy rose as investors sought the best defensive stocks.

OUTLOOK

Notwithstanding our expectations for greater volatility in the short to medium term driven by the covid-19 crisis, we are confident that the underlying businesses that we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses that we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices over the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We expect the strategy to provide investors with real returns of about 5% above inflation over the longer term. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to

Performance as at 30 June 2020 [1]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
Magellan Infrastructure Fund (Currency Hedged) (MICH)	**-8.4**	**4.5**	**-**	**-**	**-**	**5.6**

1 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 date 19 July 2016. Returns denoted in AUD.

inflation, offer attractive, long-term investment propositions. Furthermore, given the resilient nature of earnings and the structural linkage of those earnings to inflation, investment returns generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them attractive and an investment in listed infrastructure can be expected to reward patient investors with a long-term time frame.

PORTFOLIO POSITIONING

Top-10 holdings at 30 June 2020

Security	Weight (%)
Transurban Group	6.2
Atmos Energy Corporation	5.8
Crown Castle International	5.2
Red Electrica Corporacion	5.0
Eversource Energy	4.7
Enbridge Inc	4.6
Sempra Energy	4.5
Xcel Energy Inc	4.3
Vopak NV	4.2
Snam SpA	3.6
Total	**48.1**

As noted earlier, we are cautious about the path ahead and have positioned the infrastructure portfolios with a defensive mindset.

At 31 December 2019, the investment portfolio had an allocation of about 55% to infrastructure, including an allocation of about 18% to airports and about 40% to utilities with less than 5% in cash.

At the end of June 2020, the investment portfolio comprised about 45% regulated utilities, 45% infrastructure and 10% in cash.

As noted above, following the onset of the covid-19 crisis we adopted a more defensive positioning. We reduced exposure to infrastructure, and particularly to airports, and increased our allocation to regulated utilities and cash. Airports businesses were significantly affected by the crisis and the allocation to airports hurt the investment performance of the portfolio.

We have increased the allocation to regulated utilities. Regulated utilities might face some short-term declines in earnings but we do not expect significant changes to their long-term earnings outlooks. Their earnings are highly defensive and regulators generally allow for losses due to issues outside of the control of the regulated utility to be recovered over the medium term.

Infrastructure businesses typically face less intrusive regulation than utilities that allows their earnings to rise and fall with the volume of business they do. As the government-mandated quarantine has reduced the volume of aviation, traffic and rail services so too the earnings of airports, toll roads and railroads have declined in the short term. Experience of previous demand shocks in the transport industry gives us confidence that the demand for transport will recover over the longer term, which will lead to resilient earnings and dividends.

Airports are the infrastructure sector most challenged by the crisis. Airports provide essential services and we are confident that the demand for their services will return over time. However, the duration of the lockout and any following economic downturn will be key to how these companies recover. Much uncertainty remains around the near-term outlook for the aviation sector and we remain cautious about the investment prospects for airports compared with other infrastructure sectors. As a consequence, we have reduced the allocation to airports.

We have maintained the allocation to communications infrastructure and energy infrastructure:

- The portfolio has an allocation to the US-based communications infrastructure company Crown Castle International. We expect the earnings of communications infrastructure companies to be highly defensive in response to this crisis. The demand for data across mobile telephony and the internet is expected to grow strongly and more investment in telecommunications infrastructure is necessary for this demand to be satisfied. Recent reporting from communications infrastructure companies suggests that the covid-19 crisis has not materially slowed the pace of development of telecommunications infrastructure that is central to future earnings growth for communications infrastructure companies.
- The energy infrastructure companies in the strategy generate earnings by storing oil, gas and chemicals or transporting oil and gas across their pipeline networks. These companies have limited exposure to changes in the oil price and, while the revenues they earn from transporting oil and gas can change with movements in volumes, underwritten 'take or pay volumes' usually account for the majority of revenues so we assess their exposure to volume decreases as low. If the customers of these businesses have solvency issues then this could cause problems, but access to energy infrastructure services is essential to their ability to earn revenues.

Gerald Stack

IMPORTANT INFORMATION

Units in the fund(s) referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. A copy of the relevant PDS relating to a Magellan financial product or service may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

Airlie
Funds Management

Welcome to the
AIRLIE AUSTRALIAN SHARE FUND
(MANAGED FUND) (TICKER:AASF)

About Airlie Funds Management ('Airlie')

Airlie Funds Management

Airlie is a specialist Australian equities fund manager which brings together some of Australia's most experienced industry participants and has in excess of A$6 billion* in assets under management.

Airlie has an active, value-based investment style that aims to deliver attractive long-term capital growth and regular income to its investors. Founded in 2012 by highly regarded industry veteran John Sevior and headquartered in Sydney, Airlie manages a range of Australian equities strategies, primarily for institutional and high net wealth clients. Magellan Asset Management Limited ('Magellan') purchased Airlie in early 2018, providing retail investors exclusive access to Airlie's investment expertise for the first time, through the Airlie Australian Share Fund.

*As at 31 May 2020

Why chose the Airlie Australian Share Fund?
(TICKER:AASF)

The Airlie Australian Share Fund (Managed Fund) (the 'Fund') provides an opportunity to access an experienced investment team with a proven track record of prudent, common sense investing.

The Fund's primary objective is to provide long-term capital growth and regular income through investment in Australian equities.

The Fund will hold a concentrated basket of between 15-35 (typically ~25) quality Australian listed companies – Airlie's best ideas. Maximum cash holding of 10% with an aim to be fully invested. The partnership between Airlie and Magellan offers Airlie's experience in Australian equities with Magellan's considerable expertise in operating and distributing retail funds for Australian investors.

Deep knowledge and long-standing relationships with Australia's leading businesses, developed over two decades.

Deeply experienced team

A proven investment process

Concentrated portfolio - Airlie's best ideas

Sensible investing
Including purposeful engagement with management

We believe that sensible investing will outperform the market over the medium to long term.

Prudent, common sense investing, by an experienced team

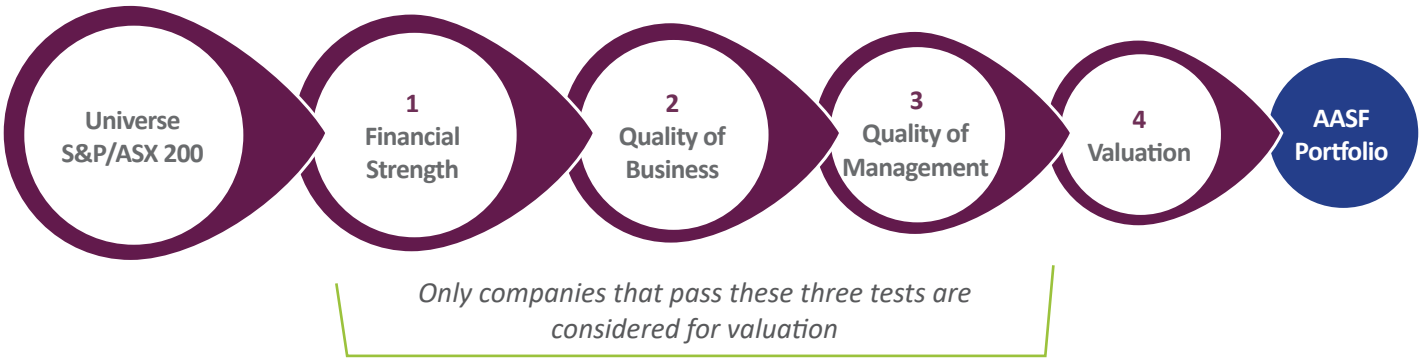
Matt Williams has over 25 years industry experience, he entered investment management in 1993 when he joined Perpetual Investments as an equities dealer. From there Matt progressed to be an equities analyst and portfolio manager. From 2011 to 2015, Matt was Head of Equities at Perpetual. Since joining Airlie in July 2016 Matt has managed Australian share strategies for institutional clients.

Emma Fisher has 9 years investment experience, previously working in Fidelity International's Australian share team based in Sydney. She commenced her career at Nomura Securities as an equity research analyst in 2010, and holds a Bachelor of Commerce (Liberal Studies) from the University of Sydney.

Sensible investment process

Airlie undertakes research in conjunction with applying their long-term knowledge and relationships with Australian companies to identify attractive investment opportunities.

Airlie rations its energies towards finding the best investment opportunities.



Financial Strength
Firstly the universe is filtered by assessing the financial strength of companies. Only those with solid financial characteristics including conservative levels of both on and off balance sheet financial obligations progress.

Business Quality
The second step in the investment process is to assess the quality of a company's business. The key question asked is whether or not a company has a durable business with a reasonable chance to prosper in the future. Airlie examines for favourable or improving positions within the industry, predictable earnings power and strong cash generation.

Airlie has deep historic knowledge of the stocks in which it invests. While Airlie is a fundamental, bottom-up investor it is important to keep informed of the macroeconomic events and sector issues that could affect stocks.

Quality of Management
The next stage of the investment process is more qualitative, where the quality of management is assessed. Airlie seeks to invest in companies with competent managers whose interests ideally align with those of shareholders. It is important to note that to assess the quality of businesses and management, Airlie visits companies and meets senior management frequently.

Valuation
The last stage of the process is to assess the intrinsic value of the stocks that meets Airlie's criterion of financial strength, quality of business and quality of management. Airlie takes a pragmatic and flexible approach to valuations at a stock level. Airlie seeks to invest in stocks where a strict view of a company's fair value exceeds its prevailing market price.

3 ways to access the Airlie Australian Share Fund

You have the choice of either buying units on the Australian Securities Exchange **(Ticker: AASF)** via your stockbroker/online broker or applying directly with Magellan, the Responsible Entity by sending an Application Form to our unit registry.

If you hold your investments via an investment administration platform, you should consult your financial adviser who will be able to assist you in investing in the Fund.

INVEST DIRECTLY THROUGH THE ASX

ASX:AASF

Airlie Australian Share Fund
(Managed Fund)

INVEST DIRECTLY WITH THE FUND

Submit An Application Form

Airlie Australian Share Fund

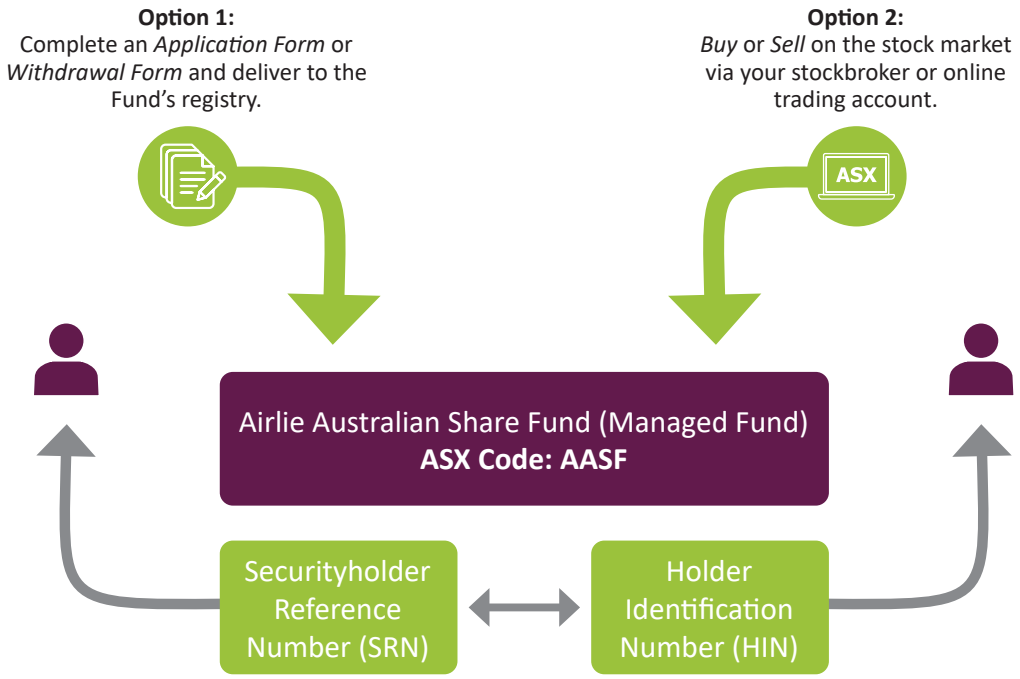
SPEAK TO A FINANCIAL ADVISER

Speak With Your Adviser/Broker

To find an adviser, visit the 'Financial Planning Association of Australia (FPA)' or 'Your best interests' website.

There are important differences between investing in the Fund through the Australian Securities Exchange or by applying directly with Magellan, the Responsible Entity, including the price you will receive. You should read the PDS (available at www.airliefundsmanagement.com.au) before making any decision on how to invest in the Fund.

How to buy and sell your units



You will be issued with an investor number called a Securityholder Reference Number (**SRN**).

Your stockbroker can assist you if you wish to sell your units on the stock market.

Your units will be held through your stockbroking account on your Holder Identification Number (**HIN**).

Your stockbroker can assist in converting this to a **SRN** if you wish to redeem your units via the Fund's registry.

Frequently asked questions

How do I know whether I have an SRN or a HIN?

Your HIN or SRN can be found on the top right hand corner of your holding statement and other shareholder communications. You will typically have a HIN if you bought your units on the Australian Securities Exchange through a stockbroker. You will typically have an SRN if you applied for unit directly with the Responsible Entity.

A HIN is a Holder Identification Number issued by your stockbroker. It is a unique number used to link all your holdings, stocks, shares, and not specific to just Magellan. A HIN is 11 characters long. It starts with an 'X' followed by 10 digits. For example: X0001235898

An SRN is a Securityholder Reference Number issued by the Fund's Unit Registry and is your unique identifier in the Fund. An SRN is 11 characters long and starts with an 'I' followed by 10 digits. Example: I00874500369. Your SRN will be stated on your first confirmation statement and partly masked for subsequent statements.

What is the minimum initial investment amount?

If you invest on the Australian Securities Exchange there is no initial minimum investment amount.

If you invest directly with the Responsible Entity by sending us an Application Form, the minimum initial investment is A$10,000 which is the same as all Magellan's unlisted funds.

Additional investments can be made into an existing account at any time. No minimum applies for additional investments by BPAY. A minimum of $5,000 applies to other payment methods.

Can I reinvest my distributions regardless of how I entered the Fund?

Yes, if a distribution reinvestment plan is offered you may choose to automatically reinvest your distribution as additional units in the Fund regardless of how you acquired your units. Further information will be made available on the Fund's website at the time any DRP is offered.

www.airliefundsmanagement.com.au