

Magellan Global Trust

ARSN: 620 753 728

ASX code: MGG

Fund Facts

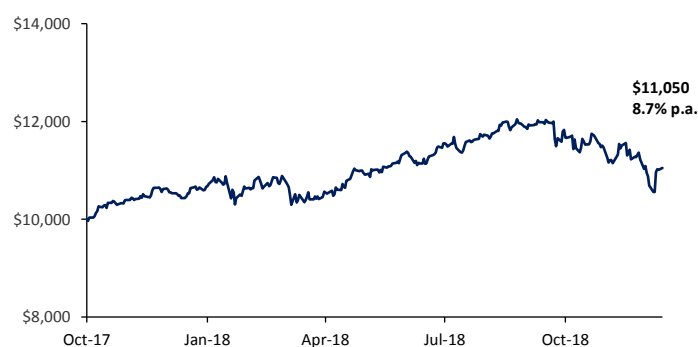
Portfolio Manager	Hamish Douglass and Stefan Marcionetti		
Structure	Listed Investment Trust		
Inception Date	18 October 2017		
Management & Administration Fee ¹	1.35% per annum		
Fund Size	AUD \$1,651.5 million		
Distribution Frequency	Six Monthly		
Performance Fee ¹	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (AUD)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.		
iNAV tickers	Bloomberg Thomson Reuters IRESS	MGG AU Equity MGG.AX MGG.AXW	MGGIV Index MGGAUiv.p MGGINAV.ETF

¹All fees are inclusive of the net effect of GST

Fund Features

- ASX listed investment trust
- Trust is an actively managed global equities fund
- Target Cash Distribution yield of 4% per annum paid semi-annually
- An attractive distribution reinvestment plan with a 5% discount to the NAV per Unit in respect of the Target Cash Distribution. The discount will be paid by the Magellan Group
- Currency exposure to be managed by Magellan, currently 40% hedged to AUD[†]
- Minimum administration for investors; no paperwork needed to trade
- Units can be bought or sold on the ASX like any other listed security
- Settlement via CHES

Performance Chart growth of AUD \$10,000*



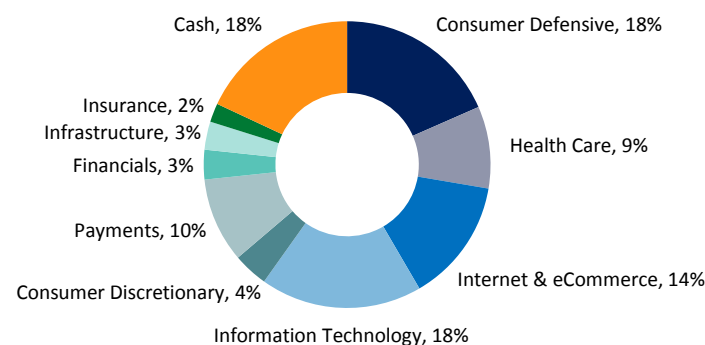
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-4.0	-4.2	0.2
3 Months	-7.8	-11.0	3.2
6 Months	-0.8	-4.6	3.8
1 Year	5.9	1.4	4.5
Since Inception (% p.a.)	8.7	4.7	4.0

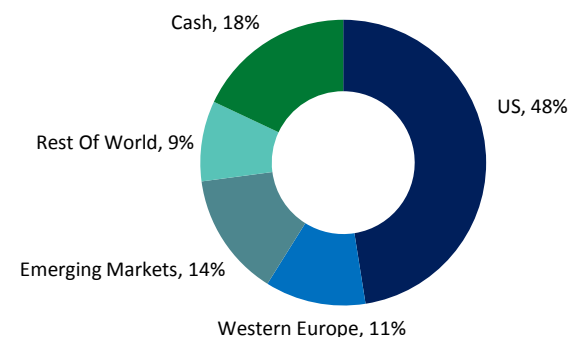
Top 10 Holdings

	Sector [#]	%
Alphabet Inc	Internet & eCommerce	7.6
Facebook Inc-A	Internet & eCommerce	6.3
HCA Healthcare Inc	Health Care	6.1
Starbucks Corp	Consumer Defensive	6.1
Apple Inc	Information Technology	5.7
Microsoft Corp	Information Technology	5.6
Visa Inc	Payments	5.3
Kraft Heinz Co	Consumer Defensive	4.3
MasterCard Inc	Payments	4.3
Oracle Corp	Information Technology	4.2
TOTAL:		55.5

Sector Exposure by Source of Revenue[#]



Geographical Exposure by Source of Revenue[#]



[†]The Fund is currently exercising its ability to hedge some of the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian dollars.
^{*}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). Fund Inception 18 October 2017.
^{**} MSCI World Net Total Return Index (AUD).

[#] Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue of individual companies. Exposures may not sum to 100% due to rounding.

Market Commentary

Global stocks in the December quarter staged their worst quarterly performance in more than seven years after tighter US monetary policy, tensions between China and the US, key resignations from the US administration, and political uncertainty in Europe fanned doubts about the global economic outlook. During the quarter, 10 of the 11 sectors fell in US-dollar terms. Energy (-22%) and IT (-17%) fell most while utilities (+0.5%) rose.

US stocks slumped as political uncertainty intensified and the Federal Reserve disappointed those who hoped the central bank would end its rate increases when it delivered an expected increase in December. Concerns about the stability of the administration of President Donald Trump swelled after Defence Secretary James Mattis quit in December over Trump's decision to pull US troops from Syria. Concerns rose further when an impasse with Congress about paying for a wall along the Mexican border led to a partial government shutdown, and Trump reportedly looked into sacking Jerome Powell, his appointee as Fed chairman, for raising US rates too fast. In December, the Fed raised the US cash rate by 25 basis points to between 2.25% and 2.5%, the fourth rate increase of 2018 and the ninth rate increase since the global financial crisis. Investors were disappointed that the Fed only reduced its forecast for rate increases in 2019 from three to two – some were hoping for none. The US ended 2018 with the jobless rate at a 49-year low of 3.7% and inflation largely contained to about 2% on key barometers.

European stocks fell as political concerns in France, Germany, Italy and the UK grew and the risk of a recession in the eurozone rose after Germany's economy contracted in the September quarter. In France, judged a source of renewed European integration since centrist Emmanuel Macron won presidential elections last year, Macron's credibility was dented after he buckled to the widespread demands of yellow vest protesters, whose original gripe was against an increase in the tax on petrol and diesel for environmental reasons. German politics was jolted when the political party (and its Bavarian equivalent) led by Chancellor Angela Merkel fared so poorly in two state elections in October she said she would step down as leader of the Christian Democratic Union in December. This unexpected decision raised doubts about how long Merkel can survive as leader of Europe's biggest economy (which she can do even after she stepped down as party leader). Italy's new government created uncertainty when the EU rejected its proposed budget deficit for fiscal 2019, an unprecedented step against any EU member. In the UK, the government of Theresa May postponed a parliamentary vote on Brexit from December 11 until mid-January, heightening talk the UK will depart from the EU without any agreement. Even though concerns grew that the eurozone economy is stalling, the European Central Bank said it would end its net asset-buying by year end. Reports showed the eurozone economy only expanded 0.2% in the third quarter, as Germany's economy contracted the same amount.

Japanese stocks tumbled after the Bank of Japan trimmed its inflation forecast for fiscal 2020 to 1.5%, which is under its goal of 2%. Chinese stocks fell as the trade dispute with the US and a crackdown on shadow lending intensified doubts about the strength of its economy. Emerging markets overall slid on the gloomy global outlook.

Fund Commentary

The portfolio recorded a negative return for the quarter. The stocks that struggled most included the investments in Apple, Facebook and Kraft Heinz. Apple tumbled after earnings downgrades by key suppliers raised concerns about the strength of demand for Apple's latest devices. Facebook fell after media reports attacked how top executives handled fake news, privacy issues and other incidents. Kraft Heinz slid after its cost cutting was delayed in order to support better sales growth during the third quarter.

Stocks that performed best included the investments in Starbucks, McDonald's and Yum! Brands. Starbucks surged after faster-than-expected sales growth of 4% in the Americas and 3% globally for the third quarter beat expectations, and the coffee chain said it would cut about 5% of the workers based in its headquarters in Seattle to reduce costs. McDonald's rose on higher-than-expected sales in the third quarter thanks to better performances in Australia, Canada and the UK. Yum! Brands rose after same-store sales and profit for the third quarter outdid expectations.



Microsoft: The software giant in the Nadella era is strengthening its hold on the business world.

Satya Nadella, 51, who joined Microsoft in 1992, was made the company's third CEO in 2014, as co-founder and first CEO Bill Gates resigned as chairman. At the time, the software giant was criticised for missing out on the mobile revolution, and Microsoft's share price had idled for more than a decade.

The Nadella era is so far proving to be one of the most dynamic in the history of Microsoft, especially in terms of its stock price. The company founded in 1975 recorded an adjusted net profit of US\$30.3 billion in fiscal 2018, an increase of 18% on the previous year. This profit was built on sales of US\$110.4 billion, 14% higher than a year earlier and 27% higher than in 2014. The share price of the company has tripled since 2014. On December 31 just gone, Microsoft was the world's most valuable company.

Ironically for a company that is a household name and offers many consumer-targeted products such as Windows PCs, Xbox and its Bing search engine, Microsoft's successes are built on its two business-oriented divisions, which have expanded sales at double-digit rates in recent years. One is the business-focused or 'Productivity' division, which generated 37% of Microsoft's operating profits in fiscal 2018. The other is the 'Intelligent Cloud' division (including its rapidly growing Azure hyperscale public cloud), which pulled in 33% of operating profits in fiscal 2018. The segment aimed more at consumers is known as the 'More Personal Computing' division.

We estimate that 80% of Microsoft's profits are sourced from businesses. The Windows PC operating system remains critical to business operations globally. Microsoft Office has a 90% market share on office 'productivity' software globally. Microsoft's data-centre software products are deployed globally enabling ecosystems of third-party applications and further protected by the high cost and risk of switching to competing products. Microsoft is the second-largest vendor after Amazon Web Services in the rapidly growing public cloud market. Such holds on business are what make Microsoft a compelling long-term investment.

To be sure, much of Microsoft's success in cloud and enterprise software is due to investments and decisions made in the era of CEO number two, Steve Ballmer (2000-2014). So all the credit can't be attributed to the Nadella era (or Nadella). The sales growth of the More Personal Computing, which is still too large a market to overlook, has been more challenging as households have increasingly opted for

smartphones and tablets over replacing their home PCs. The growth rate of the cloud and business software businesses is expected to slow over time.

But while the cloud and business software markets stay strong, Microsoft is investing to benefit. The 11% annual revenue growth across Microsoft's Productivity and Intelligent Cloud segments over the past three years, as More Personal Computing sales shrank at a 0.9% annual rate, show how Microsoft is shifting away from its PC-centric beginnings. This profitable shift towards businesses will epitomise Microsoft's Nadella era and, most likely, well beyond.

Steadier streams

Microsoft under Nadella, so far at least, is noticeable for how the company is more reliant on selling pay-for-use services that are often tied to multi-year contracts, rather than on product licences for software, where payment is upfront.

Other noticeable things Microsoft has done in the Nadella era are takeovers to acquire networks and intellectual capital. In 2016, Microsoft bought LinkedIn for US\$26 billion. In a reversal on its pre-Nadella era stance against open-sourced software, in 2018 Microsoft paid US\$7.8 billion for GitHub, an online code-sharing platform used by more than two million businesses and developers to write, store and share software. In 2014, Microsoft paid US\$2.5 billion for Mojang, the publisher of the Minecraft video game, to bolster its gaming business. Other focuses have been spending discipline, ensuring privacy and cybersecurity, and exploring the opportunities presented by artificial intelligence and the internet of things.

Amid all these efforts, Microsoft is posting impressive results for an established tech company. For the first quarter of fiscal 2019, Microsoft posted a 19% jump in revenue to US\$29.1 billion compared with a year earlier, as revenue from the Intelligent Cloud division surged 24% while sales from Azure soared 76%. Net income for the quarter jumped 34% to US\$8.8 billion.

To the benefit of investors, the Nadella era is becoming synonymous for such double-digit earnings-per-share growth.

Sources: Company filings and website and Bloomberg.