



# RESEARCHIP

## Qualitative Fund Research

Magellan Global Fund

10 January 2022

 RESEARCHIP Rating



*The views and opinions in this document are considered valid from one year from the date published.*

# Qualitative Fund Research Contents

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## Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score	Maximum Factor Score
Corporate & Investment Governance	15%	4.50	/ 5
Investment Philosophy & Process	20%	4.60	/ 5
People	25%	4.67	/ 5
Portfolio Construction & Implementation	15%	3.83	/ 5
Risk Management	15%	4.60	/ 5
Investment Fees	10%	3.71	/ 5
<b>Overall Average Score</b>		<b>4.40</b>	<b>/ 5</b>

## What We Look At?

The qualitative rating of a fund is a function of the Research IP Research Factor Weighting process, which incorporates the following:



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## Meet the Manager

Magellan was formed in 2006 to generate attractive returns for clients by investing in global equities and global listed infrastructure while protecting their capital. Magellan was founded by Hamish Douglass and Chris Mackay and has offices in Australia, New Zealand and the US. They are a wholly owned subsidiary of Magellan Financial Group, which is one of the top-100 stocks by market value on the ASX. Further information on the Manager can be found in its [online profile](#).

Magellan's [investment philosophy](#) which underpins the investment process, which is consistent across all their equity strategies. Magellan perceives outstanding companies to be those that are able to sustainably exploit competitive advantages in order to continually earn returns on capital that are materially in excess of their cost of capital.

Magellan is a signatory to the United Nations Principles of [Responsible Investment](#) (UNPRI). They also believe that ESG practices can have a material impact, whether for better or worse, on a company's long term sustainability and prosperity.

Magellan manages the following funds:

- [Magellan Global Fund](#)
- Magellan Global Fund (Hedged)
- Magellan High Conviction Fund
- Magellan Infrastructure Fund
- Magellan Infrastructure Fund (Unhedged)
- Magellan Sustainable Fund
- Magellan FuturePay
- MFG Core International
- MFG Core ESG
- MFG Core Infrastructure



A selection of the funds can be accessed in listed form or unlisted. A full list of the funds can be found [here](#).

These funds are managed by a team of 15 portfolio managers and a further 19 investment professionals, who also have research responsibilities. The Manager has provided [individual bios for the team](#). For the number and type of funds being managed, the team is adequately resourced and governed, with well tenured executives and portfolio managers.



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# Key Takeouts

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**Quantitative Tear Sheet** - <https://platform.research-ip.com/funds/65098877>

Platform is FREE to access via registration – performance data updated monthly.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

For important Fund Facts view the [RIPPL Effect](#)

## The Fund

Fund Details	Magellan Global Fund
Investment Objectives	The fund has the following objectives: <ul style="list-style-type: none"> <li>To achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss.</li> <li>A minimum return objective of 9% p.a. (net of fees) over a business cycle.</li> </ul>
Benchmark	MSCI World Net TR Index (AUD)
Alpha Objective	A minimum return objective of 9% p.a. (net of fees) over a business cycle.
Management Fee	Management Fee of 1.35% p.a. incl GST
Performance Fee	Performance Fee – 10.0% of excess return (inc GST) Hurdle – the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (AUD)) and the Absolute Return Hurdle (the yield of a 10-year Australian Government Bonds). Net/Gross – performance fee calculated on Net out performance High Water Mark (HWM) - Yes – perpetual HWM Frequency – calculated daily, paid six monthly Maximum limit – subject to the high water mark
Estimate of Total Fund Charges	1.35% (inc GST) as at 30 June 2021.

The Magellan Global Fund (“the Fund”) invests in outstanding global companies, which is defined as those that are able to sustainably exploit competitive advantages in order to continually earn returns on capital that are materially in excess of their cost of capital.

Magellan focuses on risk-adjusted returns, rather than benchmark-relative returns. As a result, the Magellan Global Fund’s investment process is designed to generate an unconstrained, concentrated portfolio of high-quality companies.

Magellan believes that an appropriately structured portfolio of 20 to 40 investments can provide sufficient diversification to ensure that investors are not overly correlated to any single company, industry-specific or macroeconomic risk.

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Factor	Lower Limit	Upper Limit	Reference
Number of stocks held	20	40	
Maximum weighting of individual stock	0%	10%	
Maximum non-MSCI World Index countries	0%	20%	
Maximum invested financial companies	0%	30%	
Minimum market capitalisation	US\$10bn		
Maximum combined holdings of portfolio positions above 5%	0%	40%	
Cash	0%	20%	

In addition to the permanent risk controls detailed above, the manager also implements “dynamic” controls from time to time. For example current limits include, <20% in payments, <10% in UK holdings and a stock specific risk limit of >5%.

The Manager has reasonable degree of flexibility despite being a concentrated portfolio. The Factor table above highlights the Fund’s constraints and flexibilities. However, Research IP believes that the Manager is unlikely to use the full range of discretion, except in exceptional circumstances.

Investors should consider the Fund as being a globally focused equity fund, with the ability to hold cash up to 20%. The fund tends to be closer to fully invested, having a minimal cash holding. However, the Manager has utilised the full range of cash holdings since inception. The Manager will not equitise cash.

Research IP notes that the Manager does not actively hedge the portfolio, rather it offers a hedged and unhedged version. Advisers and investors can mix the funds to replicate a hedging strategy and take a view on their desired currency exposure.

Research IP notes the manager is a USA reporting entity to the Securities Exchange Commission (SEC). Accordingly, the Manager cannot report operations, performance, or portfolio holdings differently to the SEC guidelines. This is the same for all USA SEC reporting entities. Under SEC disclosure rules, Magellan releases [full portfolio holdings](#) quarterly.

## Using this Fund

The profile of the Fund would be suitable for investors with a higher risk profile. The Fund is a long only global equities product and as such will generally sit within the growth component of a diversified portfolio, more specifically within the International Equity allocation.

Given the concentrated portfolio of around 20-40 stocks, there is a greater chance of volatility in the short term. Investors should be aware that this type of Fund may experience significant periods of negative returns. Research IP believes an investor should have a minimum investment time horizon greater than seven years, preferably longer.

Special consideration should be given to currency given the Fund is invested in global markets. The Fund is managed in Australian dollars.

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## What the Manager Says?

Insight	Manager view	Research IP opinion
<p><b>Who is accountable for managing the fund?</b></p> <p><b>Is the investment teams work history relevant to the funds they manage?</b></p>	<p>Hamish Douglass, Chief Investment Officer and Lead Portfolio Manager for the fund. Since 1 July 2020, Arvid Streimann has been named co-PM on the Magellan Global Fund.</p> <p>Hamish Douglass is Co-Founder, Chairman and Chief Investment Officer of Magellan Financial Group Limited ("MFG" or "Group"), and Lead Portfolio Manager of Magellan's Global Equity strategies. Hamish has more than 31 years of investment industry experience and has been managing the fund since 2007. Hamish is a former member of the Australian Government's Financial Literacy Board, the Australian Takeovers Panel, the Australian Government's Foreign Investment Review Board and the Forum of Young Global Leaders – World Economic Forum. Hamish is currently also a Director of the Victor Chang Cardiac Research Institute.</p> <p>The broader Investment team is organised along sector lines, with Analysts and Portfolio Managers responsible for global industry coverage within their assigned sector(s). All Analysts and Portfolio Managers have responsibility for modelling and preparing research reports with the exception of Hamish Douglass, Lead Portfolio Manager. There is sufficient depth in each sector, however cross training is provided, and resources shared when necessary.</p>	<p>Douglass is ultimately responsible for the Fund, although Research IP notes that Streimann was named as co-PM for this fund in 2020. Douglass is considered to have extensive investment experience, some of which has come through different channels. Research IP believes that participation in these different forums has provided Douglass with a different lens in the investing decision-making processes.</p> <p>Streimann has been with Magellan since 2014, previously working on the sell side and starting out as an Economist at the Reserve Bank. Notably Douglass, Wheldon and Marcionetti (as well as the traders) are the only members of the investment team to not conduct stock level research (6 of 34). Research IP believes the research load, across the well resourced investment team, to be commensurate with global competitors.</p> <p>Research IP considers key person risk in Douglass to be relatively high, having significant responsibility as both the Chairman, Chief Investment Officer (CIO), and Portfolio Manager (PM) for this fund, although there is assistance and oversight from other members of the investment team. Douglass is also a very key component of the Fund's marketing drive and message.</p> <p>The team has grown over recent years, with an average tenure now of 6.7 years. Turnover has been relatively high across the broader team with two departures and nine new hires in the last 3 years.</p> <p>The investment team is assisted by internal macro inputs and research coordination. These two inputs contribute to the harmonisation and consistency of the investment team's output. This ensures that Douglass and other Portfolio Managers can apply the research effort confidently in their Fund.</p> <p>Magellan comprises a team of over 130 staff, a large proportion of this supports the 34 strong investment team. This ensures appropriate attention is being given to the</p>

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		operational aspects of investing and assists to keep investment personnel focused.
<p><b>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</b></p>	<p>Yes</p> <p>Yes</p>	<p>Research IP believes that ‘eating your own pudding’ should be an aspect potential investors consider, when deciding to invest in any financial product.</p> <p>Importantly, all investment personnel should pay the same fees as other investors, enhancing the alignment of interest with an investor’s experience.</p> <p>As co-founder Douglass has a sizable equity ownership in the ASX listed Magellan Financial Group (MFG). Most of the Magellan team are also shareholders in MFG.</p>
<p><b>Why would you allocate to this fund?</b></p>	<p>The Fund considers investments in global companies that have sustainable competitive advantages which they are able to translate into returns on capital in excess of their costs of capital for a sustained period of time. We endeavour to acquire these companies at discounts to their assessed intrinsic value. The Fund is dominated by companies that we consider to have:</p> <ul style="list-style-type: none"> <li>• Sustainable competitive advantage(s).</li> <li>• Low agency risk.</li> <li>• Predictable future cash flows and earnings.</li> <li>• Margin of safety.</li> <li>• High re-investment potential.</li> </ul> <p>Magellan’s ability to deliver on investment objectives has been proven for approximately 14 years, a period that has seen large market drawdowns through both the global financial crisis of 2008 and the multi-year European sovereign debt crisis that started in early 2010, as well as several periods of strong equity markets. Across this time span, Magellan’s global equity strategies have substantially preserved capital in market down-turns whilst delivering total returns in the top percentile of Large Cap Global Equity managers (source: eVestment Strategy inception to 31 December 2020).</p>	<p>The Manager provides investors with an opportunity to gain exposure to a concentrated portfolio of listed global companies (holdings have ranged between 22 and 28 stocks over the last 5 years), with limited regard to the global index benchmarks. Despite the benchmark agnostic approach and concentrated exposures, the Fund provides a reasonable degree of diversification. This is achieved by employing risk parameters around the maximum size of positions (10%) and maximum allowance to positions &gt;5% (combined weight &lt;40%). In addition, the portfolio is focussed in the large cap space with the minimum market capitalisation of a stock held in the portfolio being &gt;US\$10bn.</p> <p>Investors should expect the cash exposure to move around its range of 0-20%. The cash weighting of the portfolio is typically a residual of security selection, portfolio movements (e.g. security entry, exits), and valuations. Research IP notes that the flexible allocation to cash is used and the fund will not remain fully invested through all market cycles. At times the Fund has held 20% cash.</p> <p>A key differentiator of the strategy is its deep research on companies, sometimes missing short term opportunities while getting greater comfort with the long term prospects of the business. The focus on reducing drawdown risk from unforeseen shocks is also controlled at the portfolio level by keeping the combined risk ratio (a combination of beta and drawdown risk) under 0.8. As such investors should expect</p>

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		<p>the portfolio to lag in strong momentum markets, but outperform in falling markets.</p> <p>Through COVID-19 in 2020 Magellan made changes through their portfolios taking risk off where the industry no longer made sense or had undergone significant change, or adding risk where they thought the long term sustainable moats and benefits around cashflow growth remained. They also increased cash from 6% to 17% in the period from December 2019 to March 2020. However, they recognised that their view changed as more information came to light and remained defensively positioned for much of 2020. Cash was redeployed into the portfolio through 2021, down to around 5-6%.</p> <p>Research IP highlights the defensive approach taken through the 2020-2021 period which aligns with a key feature of the Manager's approach – reduction of drawdown risk from unforeseeable shocks.</p>
<p><b>What are key factors in the buying and selling decisions of the Fund?</b></p>	<p>The Fund employs rigorous quantitative and qualitative screening to winnow its investment universe to companies with market capitalisations greater than US\$10 billion that typically exhibit high returns on capital and demonstrate sustainable competitive advantages. The Fund excludes companies with commodity-like economic characteristics, like companies with direct exposures to resources, from its investment universe as they tend to be highly pro-cyclical and add undesirable economic volatility, therefore conflicting with the fund's objectives of capital preservation and downside volatility minimisation.</p> <p>Magellan also compiles detailed industry reviews to better understand the appeal of certain sub-sectors and their competitive dynamics. This allows the Investment team to identify attractive investment opportunities in instances where they are not readily observable through other methods.</p> <p>In addition to the above, while Magellan's rigorous qualitative screening typically identifies investments with lower-than-average agency and business risks, it seeks regular contact with company management given the focused nature of its approach. The Investment team conducts regular one-on-one and small group meetings, including face-to-face discussions, web conferences</p>	<p>The Manager draws from three key sources in developing its buy and sell decisions. Bottom up stock analysis and industry research, both broad and detailed macroeconomic insights, and a rigorous portfolio construction and risk discipline. Research IP highlights this framework is differentiated by its integration of macro views and willingness to hold cash. Magellan also runs two sub portfolios – defensive value and mispriced growth.</p> <p>The bottom up process identifies company sustainable competitive advantages, predictability of future cash flows, and agency risks. These will contribute to the Manager's assessment of valuation anomalies, assisting in determining if a company has potential to be included in the portfolio. Research IP notes the key to this is the investment team's interpretation of the data and assumptions that are overlaid in modelling a company.</p> <p>Bottom up fundamental stock analysis is complimented with macro insights. The Manager's macro insights are derived from an internal macro team that is supplemented with formal external advisers including ex-Fed Kevin Warsh and ex-Acting Director of the CIA, Michael Morrell. This assists the Manager in understanding the likelihood of event risks, inflation, market dislocations, and country</p>

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	<p>and teleconferences with subject companies, their competitors, suppliers and clients to gain a robust understanding of the key issues affecting each business. While a company visit is not mandatory prior to a share purchase, it is customary.</p> <p>The portfolio is focused, holding between 20 and 40 securities. Portfolio construction is executed in a multi-dimensional manner, that is, portfolio weightings consider both qualitative factors and valuation considerations. Rather than arbitrary ranking by valuation, this method allows high-quality companies with smaller valuation premiums to be included (and conversely higher valuation premiums are demanded for those with lower quality scores).</p> <p>Decisions to exit securities are not based on a single earnings announcement unless the underlying fundamental thesis for a company has changed.</p> <p>Holdings will typically be sold under the following scenarios:</p> <ul style="list-style-type: none"> <li>• Value of a company materially exceeds assessment of intrinsic value.</li> <li>• Underlying fundamentals of business franchise materially weaken.</li> <li>• Directors or management behave against shareholder interests.</li> <li>• Company underperforms against expectations or business economics of the company have been misjudged.</li> <li>• For risk management purposes where a single position size becomes excessive within the portfolio.</li> </ul>	<p>and regional growth opportunities. The output of the macroeconomic view is to assist in managing the portfolio beta (volatility compared to market), trend identification, and event risk management.</p> <p>Former Chair of the Federal Reserve, Janet Yellen, left her position on the advisory panel due to her appointment as US Secretary of the Treasury in early 2021. Advisory panels are likely to be a little fluid, that is, changes are expected to occur relatively frequently. Research IP believes change in the advisory panel can be positive and allows the panel to remain relevant for the time. Too much turnover can be distracting and potentially reduce the contribution the advisory panel brings to the investment process.</p> <p>Research IP believes the insights Douglass and his team have been able to bring have differentiated the portfolio from peers. This does not guarantee better outcomes, but an edge is considered potentially useful when building out a portfolio.</p> <p>Lastly, portfolio construction and risk management are based around permanent and dynamic controls. Some controls are identified in the stock limitations of the portfolio, e.g. maximum exposure to a single stock. Research IP notes some controls are hard which means they cannot be breached, while others are soft allowing the manager a little discretion when hitting upper or lower limits, typically with approval from governance and compliance teams. The dynamic nature allows the Manager to incorporate macro and fundamental changes to respond to what are dynamic market conditions. Research IP believes this is in line with peers.</p> <p>Ultimately valuation versus actual price is a primary determinant in buying and selling securities. This also drives most trading activity around building and reducing exposures, rather than a complete exit.</p>
<p><b>What are the key drivers of the Fund's performance?</b></p>	<ul style="list-style-type: none"> <li>• <b>Intensive bottom-up stock analysis and industry research generates alpha through 'duration arbitrage'</b>, where we identify material value catalysts likely to be evident during our investment horizon (typically 5 years), but not recognised by the market over a shorter horizon.</li> </ul>	<p>Research IP notes that portfolio performance can be somewhat different to peers and the benchmark over periods less than 12 months. This is largely due to the Manager's process and investment philosophy, looking for quality companies with long term sustainable franchises, and the active cash position.</p>

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	<ul style="list-style-type: none"> <li>• <b>Macroeconomic research and global market insights</b> generates alpha through managing “event risk”, i.e. reducing drawdown in broadly falling markets. Also, trend identification is an important source of idea generation for opportunities and risks.</li> <li>• <b>Portfolio construction and risk discipline</b> provide downside protection in falling markets and provide flexibility over the market cycle. Dynamic risk controls limit aggregation of factor risk exposure, while the portfolio construction framework provides the Portfolio Manager with the flexibility to manage economic sensitivity.</li> </ul>	<p>The Fund’s performance over the five and ten year periods has been higher than the peer sector average, though periods less than 3 years has been below the average.</p> <p>The Magellan approach has stood the test of time and led to the success of the product. The focus on quality and active risk management leads to an attractive return profile for investors over the longer term. The performance history of the Fund is available via <a href="#">Research IP tear sheets</a> and on the Manager’s <a href="#">website</a>.</p>
<p><b>What are the risks of investing in this Fund?</b></p>	<p>While the Fund can invest in higher-beta stocks to participate in such markets, the overall portfolio combined risk ratio limit of 0.8 restricts its ability to do so. In addition, given that the Fund will not invest into companies with commodity-like economic characteristics, for example companies with direct exposures to resources, if there is a significant rally that benefits only such stocks, the Fund may well underperform.</p>	<p>The fund has the ability to hold up to 20% in cash. Research IP notes the fund cash levels can vary and the Manager has used the full range available since inception. Cash is not typically an asset allocation decision, it is typically a result of trading activity, including entering and exiting securities in the portfolio. Holding cash can be both a drag and contributor to portfolio performance.</p> <p>The Fund also incorporates an Environmental, Social and Governance (ESG) overlay into its decision making process. The ESG credentials of the Manager are espoused from the executive level down. Research IP believes the Manager has a strong belief in the positive outcomes of harnessing ESG principles. However, the Manager is looking to generate performance, accordingly the Fund’s ESG framework is managed on the basis that the ESG issues do not pose a material threat to the investment fundamentals.</p>
<p><b>On what basis are the fees charged justified?</b></p>	<p>The Fund pays a management fee of 1.35% per annum of the Fund’s Net Asset Value (before fees) (“NAV”) of the Open Class Units to Magellan for managing the assets of the Fund and overseeing the operations of the Fund. The management fees help cover all fees, costs, charges, expenses and outgoings that are incurred in connection with the Fund (such as administration and accounting costs, registry fees, audit and tax fees, and investor reporting expenses).</p> <p>The fee structure balances the compensation paid to the manager for the services offered above with a performance</p>	<p>Research IP believes the Manager is transparent from a fees perspective, noting the management fee (including administration fee) of 1.35% (GST inclusive, plus performance fee) is disclosed in the <a href="#">Product Disclosure Statement (PDS)</a> and peer fee information is available on the <a href="#">Research IP tools page</a>.</p> <p>Research IP observes that the Manager’s basic fee is higher than the sector peer relevant funds. Performance fees are also charged but have a market-relevant benchmark as well as an absolute return hurdle they need to overcome. This is also enhanced by using a high watermark.</p>

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	<p>fee structured to align with investors and their return outcomes.</p>	<p>The total fee load could be quite high but is linked to a strong result for investors given the performance fee hurdle. Having a margin of return higher than the market return hurdle would be preferred, in this case though Research IP notes the absolute return hurdle provides compensation and prevents performance fees being paid on a negative year of performance. Over the last ten years the total ICR has ranged from 1.35% in 2014 when no performance fee was paid to 2.24% in 2012, while Research IP estimates the typical total fee load would be in the region of 1.55%.</p> <p>The buy/sell spread on this Fund is also low relative to peers, although this may vary from time to time. It is important that managers set the spreads at the correct level so subscriptions and redemptions do not impact existing unit holders.</p> <p>Research IP notes that the base fee is high and while better structures can be applied in an individual account, the performance fee structure is best in class for a pooled fund.</p>
<p><b>Describe the quality of the organisational and investment governance processes?</b></p>	<p>Pre-trade compliance checks occur automatically within the Order Management System (OMS) and run at multiple times throughout the day.</p> <p>All compliance rules are coded into the system and maintained by the Risk and Compliance team, who are completely segregated from the Trading and Investment Operations teams.</p> <p>The OMS retains a full audit history when a compliance rule is created, triggered or edited. The OMS generates and distributes pre-trade and compliance reports to the Trading, Investment Operations, Risk and Compliance teams and Portfolio Managers. These reports provide transparency on trading activity and are used to alert teams of erroneous trades or breaches of investment guidelines on a pre-trade basis.</p> <p>Post-trade compliance monitoring oversight resides with the Risk and Compliance team. Daily exception reports are generated by the OMS and independently by the external administrator and are reviewed by a member of the Risk and Compliance team.</p>	<p>Research IP believes that Magellan's risk management processes are in line with global industry best practices. Risk monitoring and management is integrated within the investment process and reported via separated risk and compliance teams.</p> <p>Mandate compliance is tested both pre and post trade, which Research IP believes should be industry standard practice for all investment funds, given the tools and ability to import mandate guidelines and parameters to manage portfolio activity. Any breach of mandate guidelines is reported through the Compliance team. Importantly the Compliance and Risk team can take the matter directly to the board.</p> <p>Global funds management businesses typically have separated investment and executive leadership roles. This provides full separation of risk and compliance reporting through to the board. Magellan operates two governance structures for the asset management business and the listed entity. <a href="#">Magellan Asset Management (MAM)</a> ultimately forms part of the ASX listed MFG, of which Douglass is the Chairman of the Board. There is potential conflict in this structure, but it has been somewhat mitigated over time with the addition of</p>

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	<p>Any breaches of investment guidelines, portfolio risk controls or trade errors are reported to the Portfolio Manager, Trading team and the Chief Compliance Officer (CCO). Any trade errors or breaches are rectified as soon as possible following detection and are recorded in the Breach and Incident Register.</p> <p>Magellan's business model features an organisational structure that reflects the nature of its business requirements, and a deliberate focus on accountability and autonomy for individual staff while having the necessary governance structures and internal controls in place.</p> <p>Magellan has established a functional organisational structure to support its risk management framework. Magellan's Risk and Compliance team, led by Marcia Venegas, CCO, is responsible for operational risk management, in conjunction with each business unit head who is responsible for managing risks identified within their respective areas of responsibility.</p> <p>Magellan's Risk and Compliance team is responsible for the design, implementation, and maintenance of the risk management and compliance framework, as well as any associated activities, including, but not limited to, controls assurance. Magellan's Risk and Compliance team consists of 8 experienced staff with an average of 13 years industry experience.</p> <p>Magellan's Risk and Compliance staff are independent of all other business functions and may report matters directly to the Board without reference to any other party.</p>	<p>independent directors and Douglass relinquishing day to day management. Robert Fraser chairs the MAM board. Research IP notes the departure of the CEO in November 2021 but believes the Manager's operational depth is more than sufficient to remain focused on investors' assets.</p> <p>Research IP believes the risk and compliance team is well resourced for the number of strategies the manager operates. The tools and frameworks employed, including the ability to influence the design of the tools, are viewed positively.</p>
<p><b>Describe the Manager's ESG, Corporate Sustainability policies and engagement.</b></p>	<p>1. Policy: Our ESG policy requires analysts to consider all risks (including ESG risks) material to future cash flows and valuation.</p> <p>2. Process: Our assessment of a company's quality requires assessment of "Business Risks", which include all material risks including environmental, social and governance risks. An impact score is derived by consideration of Risk Exposure and Impact, for each individual material risk, which are then integrated into an overall Business Risk score. Analysts assess over 30 E, S and G risks for materiality, as part of this process. Business risk scores are approved at Investment Committee (the</p>	<p>Research IP notes the Manager's primary obligation to investors is to deliver strong investment returns in a risk managed framework. Investors must be aware the Manager will apply its responsible investment overlay and ESG policies and guidelines to the extent they align with the Fund's investment philosophy and performance objectives.</p> <p>Research IP believes outsourcing of ESG to the likes of Sustainalytics, MSCI ESG, or Refintiv ESG is the basic starting point of ESG integration. Research IP believes proprietary overlays and adding additional sources of differentiated inputs are key to</p>

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	<p>senior members of the Investment Team, including the CIO and DCIO). Material ESG risks are continuously monitored by analysts. Analysts utilise MSCI ESG Manager, interactions with companies, experts and their own expertise to form their view.</p> <p>3. Portfolio Construction: The Business Risk score above is incorporated into an overall Quality Score (incl. Economic Moat &amp; Reinvestment Potential). The PM then considers the Quality Score vs value and therefore influences position sizing. All else equal, a higher Quality Score would result in a larger portfolio position and vice versa.</p> <p>4. Engagement: we actively engage with portfolio companies on material ESG risks (as identified in the business risk assessment).</p> <p>The third-party data/tools to integrate ESG factors into the fund's investment process are:</p> <ul style="list-style-type: none"> <li>• MSCI ESG Manager – Used by Analysts for their consideration of controversies, product involvement and ESG risk assessments. Analysts use their expertise to determine the materiality of any controversies or ESG risk assessment. Analysts do not directly use MSCI's risk assessments in their determination of risk for the various ESG factors.</li> <li>• Carbon Disclosure Project – Magellan is a signatory and occasionally access their detailed assessments of companies' climate risk responses.</li> <li>• Company resources – Magellan has excellent access to the companies in its universe and regularly engages on a variety of issues, including ESG matters.</li> <li>• Industry experts – Magellan engages several expert firms, including GLG, where Analysts can speak with identified experts on all investment related matters, including ESG, as required.</li> </ul> <p>The Fund excludes investments in controversial weapons, tobacco and "high-roller" casinos. The fund also excludes companies with material exposures to materials, resources and energy generation, due to their commodity-like</p>	<p>lifting the bar from a minimalist approach to integrating ESG.</p> <p>Research IP notes the Manager utilises a number of sources of data to assist in managing the governance, while employing a screened approach to environmental and social issues. The relevant document relating to ESG, Proxy Voting, and Corporate Governance Principles can be found on the <a href="#">Manager's website</a>.</p> <p>Research IP observes Manager's ESG framework from an Environmental perspective focuses on Climate Change, Natural Resource Consumption, and Waste Management. Social aspects look to Labour and Human Rights, Health and Safety, Poverty, and Other aspects including gambling, animal welfare. Governance is considered the strongest arm of ESG, and caters to Shareholder Rights, Board Composition. To this end, Research IP believes Magellan integrates ESG principles into the investment process, but also its own company. This is evidenced in the structure of the MAM and MFG Boards.</p> <p>Magellan have an active Proxy Voting ethos. Research IP has viewed evidence of the Manager's extensive proxy voting record, which highlights a large proportion (~20%) of votes were contentious (against management), though this was around 8% over the last couple of years.</p> <p>Magellan is a <a href="#">signatory</a> to the "Principles for Responsible Investment" established by the United Nations ('UNPRI') which aims to provide a consistent framework for reviewing business practices across industries and companies. Magellan reports on its ESG investment process framework and its controls to the UNPRI annually and has received their top rating.</p> <p>Investors should be aware that ESG and the United Nations Principles of Responsible Investing (UNPRI) are relatively loose and that ESG integration has a broad range of interpretations.</p>
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	<p>economics and high pro-cyclicality, which would severely constrain our ability to deliver on our investment objective of materially lower drawdown risk.</p> <p>As a signatory to the PRI, Magellan submitted its eighth Transparency Report and received the following scores:</p> <ul style="list-style-type: none"> <li>• Strategy &amp; Governance: A</li> <li>• Listed Equity – Incorporation: A+</li> <li>• Listed Equity – Active Ownership: A</li> </ul> <p>A CSR Report is included in MFG’s Annual Report. MFG’s 2021 Annual Report is available from:</p> <p><a href="https://www.magellangroup.com.au">MFG Limited Annual Report 2021 (magellangroup.com.au)</a></p>	
<p><b>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</b></p>	<p>Broadly Magellan’s remuneration arrangements for employees comprise the following components:</p> <ul style="list-style-type: none"> <li>• A fixed remuneration amount (inclusive of retirement benefits).</li> <li>• A variable incentive which is determined annually and is subject to some level of deferred payment.</li> <li>• An offer of voluntary participation in the Magellan Group’s Share Purchase Plan (SPP), to encourage long term ownership in MFG.</li> </ul> <p>The compensation of the Lead Portfolio Manager is comprised of a base salary and a variable incentive that is based on the performance of the investment strategies under his control over a three-year period. Variable incentives earned are not paid up front but rather payment is deferred over the subsequent three financial years.</p> <p><b>Short to medium term incentives:</b></p> <p>With the exception of the CIO, Head of Investments and certain Portfolio Managers, the variable incentive amount is discretionary and is determined by reference to an employee’s individual performance and contribution, and the overall performance of the Group. Variable remuneration is not determined on a</p>	<p>Research IP observes that to preserve capital and generate a long-term positive return for investors, the Manager must remain operational.</p> <p>The remuneration structures of fixed components, variable component, and potential share ownership are considered to be in line with typical global best practices around staff compensation.</p> <p>Vesting of the variable components is considered to be best practice, ensuring sugar hits do not become attractive, to the investor’s detriment. Research IP believes a stronger alignment with investors could be made with cash incentives held in the fund structured for the vesting period, preferably in line with the proposed fund holding period. This strongly aligns the long-term remuneration of investment personnel to the strategy.</p> <p>While profitability may increase due to fund performance and inflows this does not necessarily have a 1:1 relationship with the variable component. Notably investment in MAM funds of Directors and key Executives is published, highlighting the transparency of the Manager. Variable compensation is also reported via MFG’s annual reports.</p> <p>Research IP believes there is a strong alignment and incentives in place to align investment teams with investors’ interests,</p>

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	<p>formulaic basis but is an outcome of an overall performance appraisal process. Variable remuneration may be in the range of 0-100% of the fixed remuneration amount or higher in exceptional circumstances.</p> <p>Variable incentives are paid partly as a current year cash bonus and partly as a conditional deferred cash bonus amount over periods up to three years.</p> <p><b>Long term incentives:</b></p> <p>The SPP provides financial assistance to all staff investing in MFG’s shares. It is designed to more closely align the interests of the company’s staff with those of its clients/investors. Staff that participate are subsequently fully exposed to movements in MFG’s share price, which over the long term, will primarily reflect the performance of funds managed by Magellan.</p> <p>Magellan believes that the SPP is a unique, transparent and essential program, which improves staff retention and aligns the long-term interests of the company’s staff with those of its clients/investors through a sense of ownership.</p> <p>Magellan is a wholly owned subsidiary of MFG which is listed on the Australian Securities Exchange (ASX: MFG). Approximately 81% of staff hold equity in MFG. This equity holding strongly aligns staff and investor interests while encouraging a focus on long-term, rather than short-term, decision making.</p>	<p>both at the fund level and broader MFG group.</p> <p>Research IP recognizes this is a difficult balance given the overall success of MFG since its inception and the large equity ownership of many staff.</p>
<p><b>Comment on the assets under management, flow and capacity?</b></p>	<p>The overall FUM in the Global Equities strategy as at 30 September 2021 was A\$83,711 million.</p> <p>The details of recent FUM changes are outlined below:  <a href="https://www.magellangroup.com.au/shareholder-centre/reports-asx-releases/">https://www.magellangroup.com.au/shareholder-centre/reports-asx-releases/</a></p> <p>Please refer to below for strategies the firm is responsible for:  <a href="https://www.magellangroup.com.au/funds/">https://www.magellangroup.com.au/funds/</a></p> <p>We last conducted a detailed analysis to estimate the capacity of our Global Equities strategy as at 31 December 2013, at which time it was estimated at US\$40 billion. Indexing this figure by the rolling monthly returns of the MSCI World Net Total Return</p>	<p>Funds under management (FUM) for the retail product is significant at approximately AU\$13B, and Research IP believes the strategy has approximately AU\$40B+ (as at December 2021) following the loss of key client St James’s Place. This does not directly affect the retail product.</p> <p>This amount of FUM requires the Manager to have strong risk controls in place, as position changes are meaningful in dollar terms. Research IP believes the Manager has a strong understanding of the portfolio and ramification of changes to the portfolio.</p>

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	Index (USD) generates in an estimated capacity of about US\$84 billion as at 30 September 2021.	
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# The RIPPL Effect

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For important Fund Facts, please view the **RIPPL Effect** report:




## Magellan Global Fund

### RIPPL Effect

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[Glossary of Terms – please explain the jargon in this report](#)

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- ❖ equity, bond and alternative asset specialists
- ❖ portfolio managers
- ❖ asset allocation analysts
- ❖ and ratings specialists.

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