31 March 2022 – Factsheet

Centuria LifeGoals

Magellan Global Fund

The Fund seeks to achieve attractive risk-adjusted returns over the medium to long-term while reducing the risk of permanent capital loss.

Investment manager

Magellan Asset Management Limited

Investment strategy

This Fund aims to find companies at attractive prices that have sustainable competitive advantages that translate into returns on capital in excess of their cost of capital for a sustained period of time. The Fund will endeavour to acquire these companies at a discount to its assessment of the intrinsic value of the companies. The portfolio will consist of 20-40 investments.

Target allocation

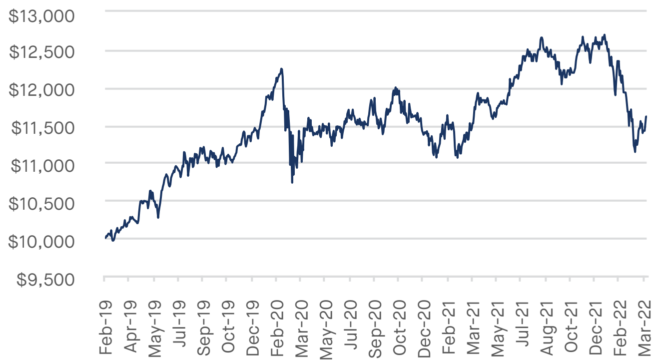
Australian equities	80-100%
Cash	0-20%

Performance returns

RETURNS TO 31/03/2022	1 MTH	3 MTH	6 MTH	1 YR	2YR[1]
Net returns (%)[2]	-0.28%	-8.44%	-5.19%	0.64%	1.55%

1. Periods greater than 1 year are expressed in annualised terms.
2. Past performance is not a reliable indicator of future performance.

Performance graph



A $10,000 investment in Centuria Magellan Global Fund made at inception is worth $11,610 as of 31 March 2022 after all fees and taxes paid within the Investment Option.

Key features

APIR code	OVS5674AU
Minimum initial investment	$500
Minimum additional investment plan	$100
Minimum switching amount	$500
Minimum balance	$500
Contribution fee	Nil
Annual management fee[1]	1.25%
Performance fee[2]	0.24%
Suggested timeframe	5 years

1. Refer to PDS for fee breakdown.
2. 10% of the excess return above the higher of the 'Index Relative Hurdle' (the MSCI World Net Total Return Index (AUD)) and the 'Absolute Return Hurdle' (the yield of 10-year Australian Government Bonds).

Fund commentary

Over the quarter, the portfolio recorded a return of -8.44% while the MSCI World Net Total Return Index delivered a return of -8.2%. We appreciate that investors expect the portfolio to provide downside protection through most market declines. We believe that recent portfolio changes will strengthen the portfolio's ability to attain the strategy's long-term objectives of competitive returns while avoiding permanent capital loss. The fund's long-term returns have been achieved by assembling a portfolio of resilient businesses that produce compounded returns that are acquired at what we regard as a material discount to their long-term prospects.

The March quarter was characterised by outsized share-price responses to any earnings announcements that surprised investors. The fund is a long-term investor in businesses with above-average long-term prospects. Thus, the fund is well positioned for the long term, even allowing for volatility in shorter term share-price movements.

During the quarter, three portfolio holdings announced earnings results and provided updated outlooks that contained unexpected earnings downgrades. These were Netflix, Meta Platforms and Starbucks:

• Netflix fell over 30% during the quarter after the streaming service said it expected near-term subscriber growth to slow and profit margins to narrow.

• Meta fell over 30% after the owner of Facebook offered only a weak revenue forecast due to Apple privacy restrictions inhibiting the reach and effectiveness of its advertising and its Facebook site suffered its first drop in regular users in part due to the popularity among the young of TikTok.

• Starbucks faced a number of issues during the quarter and dropped over 20%. Starbucks has a significant exposure to China and the covid-19 issues that plague consumption have held back sales, while in the US Starbucks is more exposed to wage inflation than its franchise-model counterparts (such as other portfolio holdings McDonald's and Yum! Brands). Additionally, the CEO resigned with Howard Schulz (co-founder and prior CEO) inserted as Interim CEO and subsequent to quarter-end the company has announced the suspension of its sizeable buyback program.

The portfolio offers an exposure to companies that we consider are advantaged with highly attractive long-term business prospects that are relatively insensitive to geopolitical and economic cycles. Provided that we continue to be disciplined with valuation, we believe this can translate into above-average long-term returns for investors.

We are not complacent and remain vigilant in assessing the investment cases for the businesses we own and watching for any shift in long-term opportunities and portfolio changes over the quarter were primarily driven by three thematics.

The first thematic was to further increase the portfolio's tilt to geographies offering relatively attractive growth prospects. We believe the US is the best-positioned region owing to very strong private sector balance sheets and its reopening. Consequently, the portfolio entered positions in Lowe's and Diageo (Diageo is UK-listed however is experiencing very strong growth in North America which contributes close to 40% of sales) and increased its positions in Visa, Mastercard and McDonald's. The US's outlook contrasts with that of China, where government policies such as covid-zero and regulatory crackdowns are likely to weigh on growth. The portfolio trimmed the portfolio's positions in Starbucks and Yum! Brands, while exiting Alibaba Group. The portfolio no longer has any direct investments in Chinese-domiciled companies.

The second thematic was management of interest-rate risk as central banks signalled an acceleration in policy tightening. The portfolio entered positions in US Bancorp and Lloyds as their earnings benefit from increased interest rates, while it trimmed its exposure to companies whose valuations are most sensitive to interest rates such as utilities (Eversource, WEC Energy and Xcel Energy) and Netflix, whose earnings are further into the future than most companies.

The third thematic was a reshaping of the portfolio's defensive company holdings. This partly reflected the actions just described, but also our desire to increase the diversity of businesses in an environment of slowing growth. The portfolio entered a position in HCA Healthcare.

Elsewhere, the portfolio trimmed its position in SAP as we have incrementally less conviction in returns at prevailing prices. We further reduced our position in Meta Platforms as we have ongoing concerns around regulatory change, revenue growth and margin risks.

Outlook More persistent than expected, inflationary pressures are causing central banks to accelerate their tightening of monetary policy. This was a key source of investment market uncertainty and volatility in the quarter, and it is likely to persist in the short term. Russia's invasion of Ukraine was an additional source of uncertainty and amplified inflationary pressures while placing downward pressure on the growth outlook.

Major turning points in monetary policy have historically only occurred once or twice a decade and have two broad impacts on investment returns. The first is slower growth, which will ultimately weigh on earnings growth. The second is elevated uncertainty around the economic and earnings outlooks, with these outlooks more sensitive to other shocks.

In the medium term and beyond, we think investors should be prepared for market returns that are below those recorded in the past 20 or so years. The global economy remains structurally low growth and low inflation, resulting in structurally low interest rates. What has changed is a steep rise in government debt and potentially a greater acceptance of central-bank-financed government deficits.

Overall, the short- to medium-term outlook for markets is more uncertain than usual. As a result, the portfolio holds cash at 8%.

Disclaimer: this commentary has been directly sourced from the Magellan Global Fund's quarterly factsheet available on their website.

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