

MFG Global Opportunities (USD)

AS AT 30 SEPTEMBER 2026

PORTFOLIO MANAGERS

ALAN PULLEN, PORTFOLIO MANAGER

RYAN JOYCE, CFA, DEPUTY PORTFOLIO MANAGER

INVESTMENT PHILOSOPHY

To invest in outstanding companies at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk.

OBJECTIVE

To outperform the MSCI World Net Total Return Index net of fees over periods of three years or longer.

PORTFOLIO CONSTRUCTION

A portfolio of 20-40 investments which we believe can achieve sufficient diversification to ensure the Fund is not overly correlated to a single company, or to industry specific or macroeconomic risks. The portfolio aims to invest in companies that have sustainable competitive advantages which translate into returns on capital in excess of their cost of capital for a sustained period of time. Cash and cash equivalents exposure between 0 - 5%.

MAGELLAN GLOBAL OPPORTUNITIES (USD)

STRATEGY SIZE	TOTAL GLOBAL EQUITY ASSETS ¹	INCEPTION DATE
USD \$1,590.9 million	USD \$1,862.5 million	1 January 2022

USD PERFORMANCE²

	3 Months (%)	1 Year (%)	3 Year (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY*
Composite (Gross)	6.6	5.1	21.9	12.1	90.9%
Composite (Net)	6.5	4.5	21.1	11.3	86.4%
Benchmark ⁺	1.9	15.2	21.4	10.8	-
Excess (Gross) v Benchmark ⁺	4.7	-10.1	0.5	1.3	-

CALENDAR YEAR RETURNS	CYTD (%)	2025 (%)	2024 (%)	2023 (%)	2022 (%)
Composite (Gross)	2.8	24.4	23.5	39.7	-22.2
Composite (Net)	2.4	23.7	22.6	38.6	-22.8
Benchmark ⁺	11.8	21.1	18.7	23.8	-18.1
Excess (Gross) v Benchmark ⁺	-9.0	3.3	4.8	15.9	-4.1

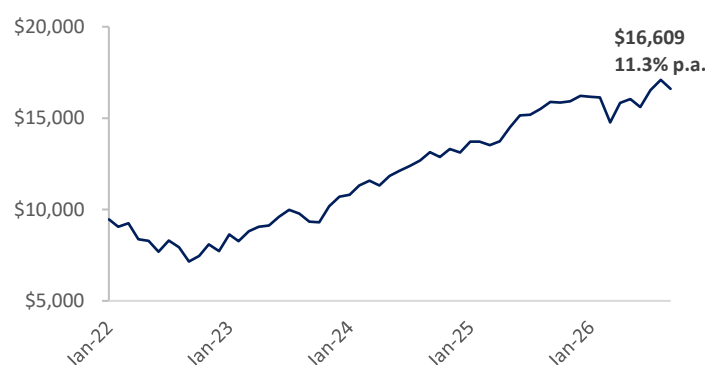
Past performance does not predict future returns.

STRATEGY FUNDAMENTALS^{3,4}

Number of Holdings	26
Return on Equity (%)	41
P/E Ratio (1 year forward)	21
Interest Cover	12
EPS Growth (%) (next 3 years)	16
Weighted Average Market Cap (USD million)	1,243,279
Carbon Intensity (CO ₂ t/US\$1m revenue) [#]	34

[#]The carbon intensity score is calculated using MSCI data. In a limited number of circumstances, where data is not available or Magellan deems it appropriate, manual adjustments are made to the MSCI carbon intensity.

PERFORMANCE CHART GROWTH OF USD \$10,000 (NET)²



Past performance is not a reliable indicator of future performance.

¹ Comprised of all Global Equity strategies.

² Returns are for the Global Opportunities Composite ("composite") and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Refer to the GIPS Disclosure section below for further information. Strategy inception is 1 January 2022. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.

³ The data is based on a representative portfolio for the Global Opportunities Strategy. Refer to the Glossary for further information on representative portfolio use.

⁴ Please refer to the Glossary for definitions.

* Outperformance consistency indicates the percentage of positive excess returns against the benchmark (MSCI World NTR USD Index) for rolling 3 year returns since inception.

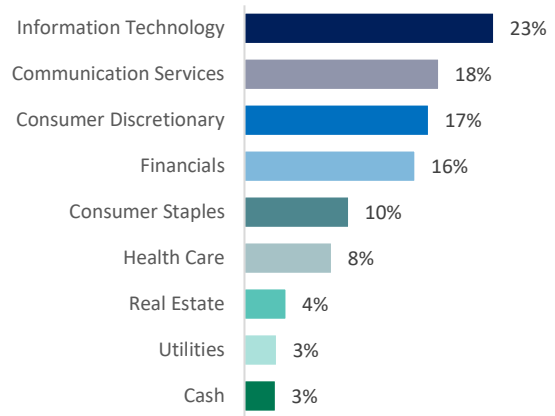
* Benchmark is the MSCI World Net Total Return Index (USD). All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in

www.magellaninvestmentpartners.com/funds/benchmark-information/

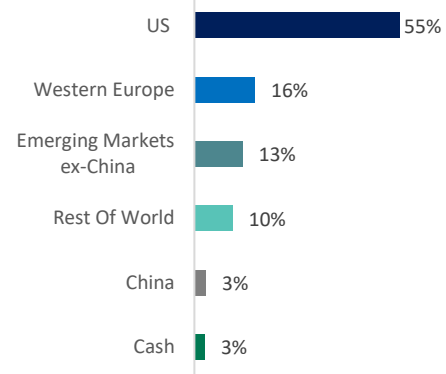
TOP 10 HOLDINGS⁵

STOCK	SECTOR ⁵	%
Microsoft	Information Technology	8.1
Taiwan Semiconductor	Information Technology	7.9
Alphabet	Communication Services	7.2
Amazon.com	Consumer Discretionary	7.0
SAP	Information Technology	4.7
Meta Platforms	Communication Services	4.7
Mastercard	Financials	4.6
S&P Global	Financials	4.0
Berkshire Hathaway	Financials	4.0
Netflix	Communication Services	3.9
TOTAL:		56.1

SECTOR EXPOSURE



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE⁵



CONTRIBUTION HIGHLIGHTS^{4,6}

1 YEAR

TOP 5	CONTRIBUTION (%)
Taiwan Semiconductor	3.1
Alphabet	1.4
Thermo Fisher Scientific	1.3
Amazon.com	1.3
Dollar General	1.0
BOTTOM 5	CONTRIBUTION (%)
Universal Music	-1.2
SAP	-0.9
Netflix	-0.8
Intuit	-0.7
Booking	-0.6

3 YEARS

TOP 5	CONTRIBUTION (%)
Taiwan Semiconductor	9.7
Meta Platforms	6.7
Amazon.com	6.6
Microsoft	6.1
Alphabet	6.0
BOTTOM 5	CONTRIBUTION (%)
Diageo	-1.0
Intuit	-0.7
Universal Music	-0.7
Alibaba	-0.5
Zimmer Biomet	-0.3

SINCE INCEPTION

TOP 5	CONTRIBUTION (%)
Taiwan Semiconductor	10.0
Meta Platforms	8.7
Microsoft	6.3
Amazon.com	5.8
Alphabet	5.4
BOTTOM 5	CONTRIBUTION (%)
Crown Castle	-2.2
Starbucks	-1.6
PayPal	-1.5
Diageo	-1.4
Eversource Energy	-0.9

SUPPLEMENTARY STATISTICAL MEASURES^{4,7}

	3 Years	Since Inception
Turnover	41.5%	30.9%
Beta	0.9	1.0
Tracking Error (% p.a.)	5.8%	5.8%
Standard Deviation - Strategy	11.5%	15.9%
Information Ratio	0.0	0.1

⁵ The data is based on a representative portfolio for the Global Opportunities Strategy. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding. Refer to the Glossary for further information on representative portfolio use.

⁶ The contribution highlight table is actual performance data of a representative portfolio within the Global Opportunities Composite. Contributions are denoted in USD and are cumulative for each period. Refer to the Glossary for further information on representative portfolio use. The securities identified above do not represent all the securities purchased, sold or recommended for Magellan Investment Partners' clients in connection with the Global Opportunities Strategy. The Global Opportunities Strategy's total returns are available on request.

⁷ Supplementary Statistical Measures are calculated after fees in USD against the MSCI World NTR USD Index.

GLOSSARY

Beta A measure of the composite's sensitivity to market movements, with the market defined as the MSCI World NTR USD Index. The beta of the market is 1.00 by definition. A beta greater than 1.00 suggests the composite is more volatile than the market, a beta less than 1.00 indicates the composite has lower volatility than the market and a beta of 1.00 suggests the composite has the same level of volatility as the market.

Carbon Intensity A measure of the metric tonnes of CO2 released per \$1mil USD revenue of a company. Calculated as a weighted average of all stocks in the representative portfolio.

Contribution The contribution values at the security level comprise the sum of each security's daily contribution to the return of the total portfolio multiplied by total portfolio growth over the remainder of the prescribed period (i.e. 1 year, 5 years and 10 years). The daily contribution is the movement in the security price multiplied by the security weight in the portfolio.

Debt/Equity Ratio A measure of a company's financial leverage calculated by dividing its net debt by stockholders' equity. Calculated as a weighted average of all stocks in the representative portfolio.

Information Ratio Is a risk-adjusted return measure that calculates the composite return above the benchmark (MSCI World NTR USD Index), relative to the volatility of those returns. Measured by excess return over the tracking error.

Interest Cover Current year earnings before interest and tax divided by net interest expense – a measure of ability to service debt. Calculated as a weighted average of all stocks in the representative portfolio.

P/E Ratio (1 year rolling forward) The share price divided by a forecast of earnings per share in one year. Calculated as a weighted average of all stocks in the representative portfolio.

Representative Portfolio The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

Return on Equity A measure of a company's profitability that takes a company's annual net income divided by the book value of its shareholder equity. Calculated as a weighted average of all stocks in the representative portfolio.

Standard Deviation measures how widely individual performance returns, within the composite, are dispersed from the average or mean value.

Turnover A measure of the representative portfolio's trading activity, which is calculated by taking the lesser of purchases or sales and dividing by the average net assets of the measurement period.

Tracking Error Calculated as the standard deviation of the difference between the return of the composite and its benchmark (MSCI World NTR USD Index) and used as a measure of relative consistency of performance to the benchmark.

Weighted average market cap (USD Million) The average market capitalisation of all companies in the representative portfolio, with each company weighted according to its percent held.

IMPORTANT INFORMATION

This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice. In making an investment decision, you should read and consider any relevant offer documentation applicable to any investment product or service and must rely on your own examination of the same and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision.

The investment program of the strategy or strategies presented herein ('**Strategy**') is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. Past performance is not necessarily indicative of future results and no person guarantees the future performance of the Strategy, 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 and 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 the Strategy or any financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Strategy. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses.

No representation or warranty is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. This material may include data, research and other information from third party sources. No guarantee is made that such information is accurate, complete or timely and no warranty is given regarding results obtained from its use. The issuer of this material and its related entities and affiliates will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages.

This material and the information contained within it may not be reproduced, or disclosed, in whole or in part in any circumstances. , Further information regarding any benchmark referred to herein can be found at www.magellaninvestmentpartners.com/funds/benchmark-information/. Any third-party trademarks contained herein are the property of their respective owners and are used for information purposes and only to identify the company names or brands of their respective owners.

United Kingdom: - This material has been prepared by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners and is distributed in the United Kingdom by Magellan Investment Partners (UK) Limited (FRN: 1037936), an appointed representative of Sentinel Regulatory Services Ltd (FRN: 1007093) which is authorised and regulated by the Financial Conduct Authority. This material does not constitute an offer or inducement to engage in an investment activity under the provisions of the Financial Services and Markets Act 2000 (FSMA). This material does not form part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any shares, units or other type of investment product or service. This material or any part of it, or the fact of its distribution, is for background purposes only. This material has not been approved by a person authorised under the FSMA and its distribution in the United Kingdom and is only being made to persons in circumstances that will not constitute a financial promotion for the purposes of section 21 of the FSMA as a result of an exemption contained in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO) as set out below. This material is exempt from the restrictions in the FSMA as it is to be strictly communicated only to 'investment professionals' as defined in Article 19(5) of the FPO.

United States of America: - This material has been prepared by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners ('Magellan') which is a registered investment adviser. The investment strategies described herein are offered in the United States by Magellan Investment Partners North America, Inc., a U.S.-registered investment adviser. Magellan and Magellan Investment Partners North America, Inc. are affiliated entities for purposes of the Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training. This material is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of Magellan to create legal relations on the basis of information provided herein. Past performance does not guarantee future results. Where performance figures are shown net of fees charged to clients, the performance has been reduced by the amount of the highest fee charged to any client employing that particular strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request and also may be found in Part II of Magellan's Form ADV.

Canada: This material is provided to you by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners ('Magellan'). Magellan is not registered in any province in Canada. The head office of Magellan is in Sydney, Australia and all or substantially all of its assets are situated outside of Canada. Due to the foregoing, there may be difficulty enforcing legal rights against Magellan.

South Africa: This material is provided to you by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners, who in accordance with FAIS Notice 55 of 2023 issued by the Financial Sector Conduct Authority, Magellan Investment Partners is exempted from section 7(1) of the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002). This material is not an offer in terms of Chapter 4 of the Companies Act, 2008.

UAE: This material has been produced by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners. This material is not for distribution to any other person. This material, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates ('UAE') and accordingly should not be construed as such. Any offer of securities or financial services is made only to a limited number of exempt Professional Investors in the UAE who fall under one of the following categories: federal or local governments, government institutions and agencies, or companies wholly owned by any of them. No securities or services have been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority, the Dubai Financial Services Authority, the Financial Services Regulatory Authority or any other relevant licensing authorities or governmental agencies in the UAE (the 'Authorities'). The Authorities assume no liability for any investment that the named addressee makes as a Professional Investor. This material is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

Japan: This material is prepared by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners. The content is for informational purposes only and directed at Qualified Institutional Investors and other professional investors as defined in the Financial Instruments and Exchange Act. No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorized or in which the person making such offer or solicitation is not qualified to do so.

Other jurisdictions: This material is provided to you by Magellan Asset Management Limited (ABN 31 120 593 946 AFSL 304 301) doing business as Magellan Investment Partners. No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorized or in which the person making such offer or solicitation is not qualified to do so.

The MSCI World Index (Net) is a free-float adjusted market capitalization weighted index that is designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as Magellan Investment Partners ('Magellan') claims compliance with the Global Investment Performance Standards (GIPS®).

For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by Magellan, excluding brands managed by subsidiaries operating as distinct business entities. Magellan is a wholly-owned subsidiary of the publicly listed company Magellan Financial Group Ltd. Magellan is based in Sydney, Australia. Total Firm assets is defined as all assets managed by Magellan, excluding assets managed by subsidiaries operating as distinct business entities.

The Global Opportunities composite is a concentrated global equity strategy investing in high quality companies (typically 20-40 stocks). High quality companies are those companies that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. The investment objectives of the Global Opportunities strategy are to earn superior risk adjusted returns through the business cycle. The composite name changed from Global Unconstrained to Global Opportunities June 2024. The composite was created in February 2022.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions are available upon request by emailing client.reporting@magellanfinancialgroup.com.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

USD is the currency used to calculate performance

GLOBALOPPORTUNITIESUSD46295

Market Commentary

Global share prices, as measured by the MSCI World Index, rose modestly in the September quarter of 2026, gaining 1.9% in USD terms and 1.5% in AUD, with the Australian dollar broadly unchanged over the quarter (+0.4% against the USD). The modest headline return masked considerable volatility: a sharp correction in the AI-related names in July, a partial recovery in August, and a narrow, technology-led market in September. Energy was the strongest sector over the quarter (+15.1%), a reversal from the June quarter, as the renewed US–Iran conflict and the return of risks to shipping through the Strait of Hormuz pushed oil prices sharply higher (WTI crude +30.1%). Information Technology also rose (+6.2%), though the more speculative data centre and semiconductor names gave back a good part of the June quarter's extraordinary gains as stretched valuations began to unwind. The rate-sensitive and cyclical sectors generally fell as bond yields rose, with Utilities (-9.5%), Industrials (-5.7%), Real Estate (-5.5%), Consumer Discretionary (-4.4%) and Consumer Staples (-2.6%) all declining. Elsewhere, Health Care (+3.6%), Communication Services (+3.6%), Financials (+1.8%) and Materials (+1.3%) all posted gains.

Regional performance largely reflected these same influences. Japan's Nikkei 225, the strongest market in the June quarter, was among the weakest over the September quarter (-4.2%), as the earlier relief on imported energy costs unwound. China's CSI 300 was the weakest major market (-11.8%), weighed down by continued softness in domestic demand and a manufacturing sector that remained in contraction. Emerging markets as a whole were little changed (-0.4% in USD). The US market was relatively resilient, with the Nasdaq up 2.6% and the S&P 500 up 2.2%, supported by the large technology names. European markets were mixed (STOXX 600 -0.7%, DAX +0.8%) as higher bond yields and renewed fiscal concerns weighed, and Australia's S&P/ASX 200 Accumulation Index rose 1.3%, helped by its larger weighting to resources and energy.

The broader macroeconomic backdrop was less favourable than in the June quarter. The earlier de-escalation that had brought energy prices down was reversed by renewed conflict in the Middle East, with further US and Iranian strikes, a broadening of the conflict across the region, and a new Saudi-led defence arrangement all pointing to a more entrenched dispute and continued upward pressure on oil prices. Economic activity nonetheless remained resilient: business surveys pointed to continued expansion, and manufacturers across North Asia recorded particularly strong conditions on the back of AI-related demand. Inflation remained elevated, however, and rose further in parts of Europe and in Japan. The shift in interest rate expectations evident in the June quarter turned into actual tightening, with central banks in most major economies now raising rates, while government bond yields rose sharply: the US 10-year Treasury yield increased by around 80 basis points to 5.28% and the Australian 10-year yield to 5.35%, reflecting not only firm growth and inflation but also growing concern over fiscal positions, particularly in France and Spain. For markets, the relief that characterised the June quarter gave way to a more cautious tone as resilient activity, supported by continued investment in AI, was increasingly weighed against higher energy prices, persistent inflation and a rising cost of capital.

Strategy Commentary

The strategy delivered solid returns for the quarter, both in absolute terms and relative to the benchmark. Performance benefited from strong results across portfolio companies, including the hyperscalers, where robust revenue growth driven by customer AI adoption provided further evidence that returns on their capital expenditure are likely to prove satisfactory. The portfolio also benefited from avoiding lower-quality data centre supply chain companies, which softened somewhat in July as some of the unsustainable speculation that had driven these stocks over the first half of the year moderated.

The largest contributors to the portfolio's performance over the quarter were Microsoft, SAP, and Meta Platforms. Microsoft reported a strong June quarter in which it delivered accelerated growth in both its Azure cloud and its M365 commercial businesses and guided for further acceleration next quarter. Overall, the result was supportive of the hyperscale growth thesis and its status as an AI and cloud beneficiary. SAP reported a Q2 result that demonstrated cloud growth resilience despite concerns about software growth headwinds and AI disruption. We view SAP as among the most AI-resilient software vendors and highest-quality businesses in the enterprise software sector. Meta performed strongly, supported by the release of Muse personal agents, Muse for Small Business, and Meta Enterprise. Muse personal agents in particular saw some early traction. The releases highlighted the optionality in Meta, given its significant AI investments and capabilities, as well as its huge user base to which it can distribute products. Meta also reached a settlement with many US states.

Key detractors included Nestlé, Adidas and Universal Music Group (UMG). Nestlé's 2Q revenue growth fell modestly below market expectations, affected by lower consumer confidence, a short-term impact from retailer destocking and some volume elasticity in coffee after recent price increases. Near-term profitability is also expected to be affected by higher transportation and energy costs. We expect these issues to be temporary and believe the company is executing well in a challenging environment. Higher interest rates have also weighed on valuations across consumer staples. Our view on business quality, economic defensiveness and the long-term growth outlook for Nestlé's key categories is unchanged. Following a successful World Cup campaign, Adidas provided a FY26 guidance update that disappointed the market, including a conservative outlook for sales through North American and European wholesale partners, where channel inventory is elevated and promotional intensity has increased. Similarly disappointing updates from other sportswear brands and retail partners have further weighed on sector sentiment. Adidas continues to execute well on product, marketing and direct-to-consumer sales, and we are supportive of management's disciplined growth strategy in a more challenging near-term environment. Our view on business quality and the long-term sportswear category growth outlook is unchanged and was reinforced during our attendance at the September investor event in Germany. UMG underperformed after a disappointing Q2 result, including higher-than-expected cost growth (including investment in AI and legal costs to counter AI-

generated music) which affected margins and inherent quarter-to-quarter revenue volatility, which offset an expected acceleration from new agreements with music streaming platforms. UMG's execution and greater-than-expected volatility in results have been disappointing, even if largely short term in nature.

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

Outlook and Portfolio Manager view

Our previous view that we are in a dangerous period for markets is unchanged. Over the past year, the market's view of AI has shifted from a reasonable assessment of its opportunities and risks to something closer to a speculative bubble, driven by price momentum, fear of missing out, and the retail and passive flows that strong returns attract. A narrow group of semiconductor and data centre names continue to account for much of the market's gains over the past year, priced as though today's record profitability will be sustained and continue to grow. In September the market was held up almost entirely by these names, which rose while most other sectors fell. The fundamentals outside the theme have been largely ignored, even as they have deteriorated: interest rates have risen and central banks have begun to tighten in earnest, concerns over government debt and fiscal sustainability have returned, inflation remains elevated, and the signs of consumer weakness are becoming more evident. Equity markets have set this aside; bond markets, with yields at multi-year highs, have not.

We do not try to predict when such periods might end. They can last longer than valuations alone would suggest, and we make no attempt to time them. But the outcome for investors who buy into expensive, late-cycle leadership is well established. We would rather miss the final stage of a rally we cannot justify on fundamentals than risk a permanent loss of capital when sentiment turns. That discipline has not changed: we hold high-quality businesses with durable earnings growth, and we will not overpay for them.

The narrowness of the market has, however, left many good businesses behind. Quality franchises outside the favoured names are now trading at valuations that imply some of the most attractive prospective returns we have seen in over a decade. This is where we are focused. Against a backdrop of resilient but slowing activity, elevated inflation and a higher cost of capital, we are using the market's preoccupation with a single theme to add selectively to businesses we expect to compound earnings, cash flows and value over time and whose worth is unchanged whether or not they currently hold the market's attention.

Insight: Luxury on sale: Opportunity or value

(Hannah Dickinson – Investment Analyst)

Thierry Hermès opened his Paris harness workshop in 1837, Louis Vuitton founded his maison in 1854, and Gabrielle Chanel opened her first boutique in 1910. We regard these houses as among the most durable consumer franchises in the world. This year, however, has tested investors' patience. Between May and August, Kering's Gucci brand cut prices on a range of its core handbags in France by 20% to 30%, a move almost unheard of among leading luxury houses. LVMH shares are down 41% year to date, Hermès 40% and Kering 32%, unwinding the gains of the Covid-era boom. The sell-off reflects an already-sluggish demand backdrop, compounded by worsening macro conditions in China and the conflict between the US and Iran, which has disrupted travel and weighed on consumer confidence around the world.

The question now is whether current sector valuations represent an attractive entry point for long-term quality investors or whether deeper structural issues justify a permanent de-rating.

How did this fall from grace transpire? In our view, the drivers are mostly cyclical or executional. Steep price increases post-pandemic combined with higher inflation and interest rates have left many aspirational buyers priced out of luxury. Revenue from clients spending less than €20,000 a year on luxury has declined since 2022, leaving the highest-spending cohort as the sole driver of growth. At the same time, the sector has lagged on innovation to drive engagement and recruit new consumers. Brands now face the challenge of restoring affordability and perceived value for money without diluting brand equity.

China is the exception: its slowdown has structural as well as cyclical elements. Chinese consumers were once the key growth engine of the global luxury industry. Mainland China rose from 6% of global luxury sales in 2010 to a peak of 21% in 2021. Including purchases made abroad, Chinese consumers still account for around 20% to nearly 40% of sales at some of the major European luxury groups, although Chinese luxury consumption has fallen considerably since its 2021 peak. Falling property prices, tighter taxation of residents' offshore assets, depressed consumer confidence and a structurally declining 25-to-39 age cohort point to a more mature market, where growth is unlikely to return to the double-digit rates of the past.

Outside China, many issues are within management's control. Pricing and perceived value can be recalibrated, and creativity renewed. That renewal is underway. Over the past year or so, more than a dozen brands have changed creative directors, and early evidence is encouraging. Chanel has seen a swift and tangible response to Matthieu Blazy, while LVMH reported that Dior returned to growth in the second quarter, a year into Jonathan Anderson's tenure. Not every reset will succeed, but the industry is again investing in desirability rather than relying on price.



The underlying economics remain exceptional, with high gross margins, strong returns on invested capital and robust free cash flow. Competitive advantages of scale are intact. Luxury is a fixed-cost industry, so scale in communication, distribution, innovation and talent confers a material advantage, and larger brands can spend significantly more on marketing in absolute terms while still earning higher margins. That spending power funds flagship stores, VIP events and immersive experiences, such as the Dior Spa and Louis Vuitton's ship in Shanghai, that smaller competitors struggle to match.

China matters, but it is one market. American consumers, supported by the wealth effect from strong financial markets, have overtaken Chinese consumers as the largest cohort globally, and shoppers from other Asian and emerging markets now collectively spend more on luxury than Chinese consumers do.

Long-term demand is also supported by structural tailwinds. Wealth is becoming more concentrated: the top 10% of US households hold about 88% of US equity wealth, and clients spending more than €20,000 a year have driven all of the sector's growth over the past four years. Luxury goods increasingly act as markers of personal achievement and economic independence for women, often linked to career milestones. The transfer of wealth from Baby Boomers to millennials, a generation with higher brand awareness and per capita luxury consumption, should also be supportive over the longer term.

While remaining conscious of the risks, including a prolonged downturn in China, further pressure on aspirational demand and the possibility that some creative resets disappoint, we believe the sector's current difficulties are largely cyclical and, in part, self-correcting. The best luxury franchises combine pricing power, scale, global reach and outstanding cash generation, with growth runways measured in decades rather than years. We favour the largest houses, whose size and brand strength leave them best placed to gain share through the cycle. For long-term investors focused on quality and duration, we believe the sector remains an attractive place to compound capital, and see the recent de-rating as more of an opportunity than a warning.