MFG US Sustainable (USD)

MFG ASSET MANAGEMENT

AS AT 31 MARCH 2023

PORTFOLIO MANAGER ALAN PULLEN

INVESTMENT PHILOSOPHY

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

OBJECTIVES

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

Aims to deliver carbon intensity less than 1/3 of S&P 500 Index.

PORTFOLIO CONSTRUCTION

High conviction (20 - 50 securities), high quality focus.

Managed via a balance of defensive and return seeking sleeves; Combined Risk Ratio cap of 1.0^.

Integrated ESG with proprietary, multidimensional carbon emissions management.

MFG GLOBAL SUSTAINABLE (USD)

TOTAL STRATEGY ASSETS[1]	TOTAL GLOBAL SUSTAINABLE ASSETS[2]	INCEPTION DATE
USD $2.2 million	USD $292.4 million	1 January 2017

USD PERFORMANCE[3]

	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY[#]
Composite (Gross)	12.3	-5.3	18.6	13.5	14.0	98%
Composite (Net)	12.1	-6.1	17.6	12.6	13.1	83%
S&P 500 NTR Index[+]	7.4	-8.2	18.0	10.6	11.6	
Excess (Gross)	4.9	2.9	0.6	2.9	2.4	

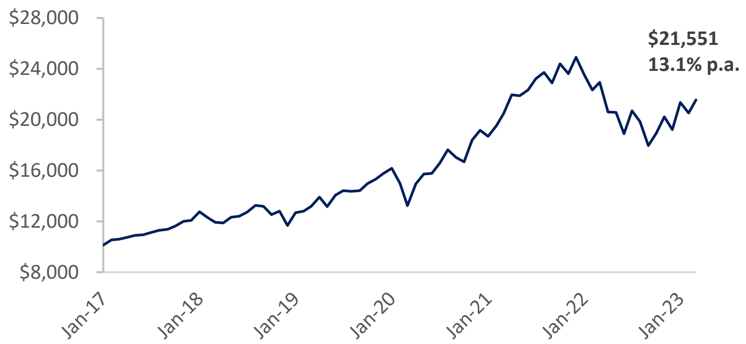
CALENDAR YEAR RETURNS[2]	CYTD (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Composite (Gross)	12.3	-22.2	31.1	22.4	36.4	-2.6	21.7
Composite (Net)	12.1	-22.8	30.0	21.4	35.3	-3.4	20.7
S&P 500 NTR Index[+]	7.4	-18.5	28.2	17.8	30.7	-4.9	21.1
Excess (Gross)	4.9	-3.7	2.9	4.6	5.7	2.3	0.6

Past performance does not predict future returns.

FUNDAMENTALS[4]

Number of Holdings	25
Carbon Intensity (CO_2t/US$1m revenues)	Strategy: 20 Index[+]: 226
Return on Equity (Trailing 1 year)	30
P/E Ratio (1 year forward)	23.5
Interest Cover (EBIT/interest expense)	15
Weighted Average Market Cap (USD million)	472,236

PERFORMANCE CHART GROWTH OF USD $10,000 (AFTER FEES)[3]



Past performance does not predict future returns.

[1] US Sustainable Strategy is currently based on a proprietary portfolio.
[2] Comprised of all Global Sustainable strategies.
[3] Returns are for the US Sustainable 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 2017. 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.
[4] Strategy Fundamentals data is updated on a quarterly basis and based on a representative portfolio in the same strategy.
^ Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index. Please contact MFG Asset Management should you wish for further details on the calculation.
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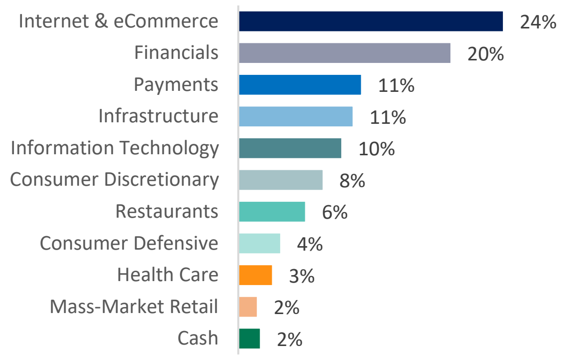
[#] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

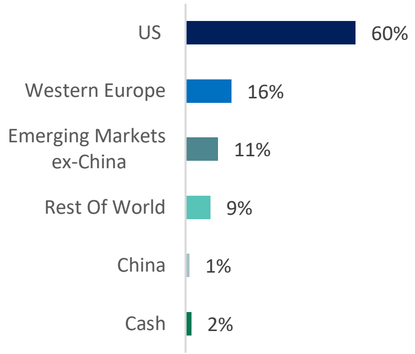
TOP 10 HOLDINGS[5]

STOCK	SECTOR	%
Alphabet Inc	Internet & eCommerce	7.4
Microsoft Corporation	Information Technology	7.4
Amazon.com Inc	Internet & eCommerce	7.0
Visa Inc	Payments	5.8
Booking Holdings Inc	Consumer Discretionary	5.3
Meta Platforms Inc	Internet & eCommerce	5.2
Netflix Inc	Internet & eCommerce	4.7
Eversource Energy	Transmission and Distribution	4.7
Intercontinental Exchange Inc	Financials	4.6
US Bancorp	Financials	4.2
	TOTAL:	56.3

SECTOR EXPOSURE BY SOURCE OF REVENUE[5]



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[5]



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

Market Commentary

Global equities have started the 2023 year rising in the first quarter in all major regions though the rally is notably narrow. The MSCI World NTR Index rose 7.7% in USD, with two key developments – the public launch of ChatGPT, bringing artificial intelligence (AI) to the masses, and a banking crisis that started in the US and spread. On the economic front, there continued to be low unemployment, solid personal income growth and a softening of inflation across the developed world. In local currency terms, 8 of the 11 industry sectors rose with the information technology (+21.0%), communication services (+17.9%) and consumer discretionary (+16.1%) sectors performing the best. Falls were led by the energy sector (–3.8%), financials (-1.9%) and health care (-1.9%) as commodity prices fell and a banking crisis saw several banks fail and major steps taken by regulators to avert deepening instability.

The S&P 500 Index rose 7.0% in the first quarter of 2023. The US Federal Reserve raised the cash target rate a further 50bp to a 4.75% to 5% target range in two 25bp increments, slowing its pace of increase. With interest rates rising by 450bp since the start of this tightening cycle a year ago, the impact on slowing inflation and slowing economic growth is starting to become more apparent, though recent data on US economic growth has remained resilient and ahead of expectations. One clear sign that the sharp move higher in interest rates has consequences was the collapse of California-based Silicon Valley Bank, after a run on its deposits led to its inability to meet liquidity needs. The crisis escalated across other smaller US banks and then to Credit Suisse in Europe before the regulators' responses finally worked to avert a systemic crisis. To do this, they provided liquidity to banks on generous terms and galvanised major banks to intervene to help reduce stress in the system.

Strategy Commentary

The strategy rose over 12% during the March quarter in USD terms, outperforming the benchmark by almost five percentage points. Holdings in Meta, Salesforce, Microsoft and Amazon and Booking led the way higher, each rising by more than 20% in the quarter. The significant events of the start of 2023, particularly the banking crisis, have accelerated the pricing of peak rates and recession fears and resulted in a reduction in long-term bond yields, providing a more conducive backdrop for quality companies.

In addition, the long-term total addressable market opportunity that we believe is evident for many of our holdings came back into focus as OpenAI launched ChatGPT to the public, acquiring 100m users in just eight days. Artificial intelligence is not a new phenomenon with about 20 large foundational models in existence, including Microsoft, DeepMind, Meta, Nvidia, and the Allen Institute. OpenAI's ChatGPT brought a User Interface that did several things; it presented a conversational logic that follows on and has contextual linking; it did not dump blocks of text answers but instead typed out answers word by word, giving the appearance of a person responding; and it made it open to the public. Microsoft, already an investor in OpenAI, moved swiftly to invest a further $10B and lock up future ownership optionality. It has since added CoPilot to several products and rolled out the new Bing. The opportunity for commercial gains across its business from AI have become increasingly evident to investors.

Meta outperformed in the quarter following announcements relating to significant cost cuts. Given the recent spending spree related to the metaverse, the cost conscience strategy was well taken. Meta intends to become a faster, leaner and more technical company in the future.

Salesforce also announced significant cost-out initiatives and a committed share repurchase program that restored the market's confidence in Salesforce's profitability potential and indicated a shift in management's focus towards profitable growth and investor-friendly capital allocation.

The largest detractor in the quarter was US Bancorp (USB), which fell 16% as the fears of a banking industry collapse fuelled panic in the sector. As the fifth-largest US bank, we believe that USB is well positioned as further industry consolidation seems likely and looks to us to be undervalued post the sector-wide sell-off.

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

Outlook

Markets have 'climbed the wall of worry' during first quarter of 2023 though it is fair to reflect that the overall indices' strengths have been heavily influenced by a few stocks. As the banking crisis broke in March, we were reminded that we have been on crisis watch for some months now; history tells us that significant and rapid monetary policy tightening tends to break things. We would anticipate the tightening to be almost complete. We believe inflation will continue to be the core focus as central banks work to bring inflation down to target levels and we will need to continue to see lower inflation datapoints over 2023 if Central Bank rate rises are to pause.

A systemic crisis in banking has been averted but other areas of potential vulnerability may be exposed in the higher rate environment. Analysis of insurance company holdings, commercial real estate and refinancing risks on maturing debt as well as those more exposed to a contraction of lending, especially by smaller banks, will be ongoing. There will be increased regulation of banks in the US and it is likely credit growth has been impaired by the events of recent weeks, laying the case for less economic growth in the months ahead. The risk that these pressures may ultimately translate into an economic recession in many parts of the world is elevated but the depth of the slowdown remains unclear.

Labour markets are lagging indicators and are unhelpful for gauging progress on wage inflation. It is notable that layoffs in the US have picked up and are spreading much further afield than the large numbers being reported for many technology companies. Where surveys collect data on inflation expectations, such as by the University of Michigan, we note that these remain anchored as consumers anticipate current high inflation will fall. Annualised, the month-on-month increase in core PCE inflation data for February is at 3.7%, suggesting improvement in headline figures will continue.

On another positive note, the recent difficulties for financials and progress on inflation likely bias the risks to the long end of the yield curve, or 10-year government bond yields, to stay in the recent range, and below 4% in the US. This is a positive for the valuations of longer-duration investments, especially those with strong cash flows and high returns on capital. We believe that our process leads us to highly advantaged companies that are balanced within the portfolio between those with strong secular growth tailwinds and those with resilience and low economic sensitivity.

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The S&P 500 TR Index is a float adjusted market capitalization weighted index that is designed to measure the equity performance of the top 500 companies in the United States. Index results assume the reinvestment of all distributions 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.

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The US Sustainable composite is a concentrated global equity strategy investing in high quality companies (typically 20-50 stocks), domiciled in the United States, with an integrated low carbon overlay. 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 US Sustainable strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss with an integrated ESG strategy with meaningfully lower carbon intensity than broader equity markets. The composite was created in January 2017. Prior to May 29, 2018 the composite was named the US Low Carbon Composite.

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@magellangroup.com.au.

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USD is the currency used to calculate performance.