



Nikki Thomas, CFA
Portfolio Manager



Arvid Streimann, CFA
Head of Macro and
Portfolio Manager

MFG GLOBAL EQUITY STRATEGIES

The MFG Global Equity Strategies are a core holding that invests in the world's best 20 to 40 global stocks. The Strategies aim to deliver 10% p.a. (gross) over the economic cycle while reducing the risk of permanent capital loss.

PERFORMANCE

Global stocks fell over the 12 months to June after Russia's invasion of Ukraine clouded the global economic outlook and boosted energy and food prices, central banks tightened monetary policies to tame inflation at decade highs, higher interest rates prompted talk the US economy was headed for recession, and China added to worries about shortages and inflation by locking down cities to enforce a policy of zero covid-19.

The Global Equity strategy recorded a gross return of minus 18.1% in US dollars for the 12 months. The Global Plus strategy recorded a gross return of minus 17.9% in US dollars for the 12 months.

Within the underlying global portfolio, the stocks that detracted the most over the 12 months were the investments in China's Alibaba Group (-2.7 percentage points of the total portfolio return), Netflix (-2.2 pts) and Meta Platforms (-2.1 pts). Alibaba dropped after the Chinese tech company announced sales figures that disappointed and Chinese regulators cracked down on local technology companies. Netflix fell after the streaming service said it expected subscriber growth to slow and profit margins to narrow. Meta tumbled after the owner of Facebook offered weak revenue forecasts due to Apple privacy restrictions inhibiting the reach and effectiveness of online ads, its Facebook site suffered its first drop in regular users due to the popularity among the young of TikTok, and the company faced a public-relations blow and possible legal difficulties after a former employee exposed issues at the social-media company and that it was losing younger audiences.

The stocks that contributed the most over the 12 months were the investments in PepsiCo (+0.4 pts), WEC Energy (+0.2 pts) and McDonald's (+0.2 pts). PepsiCo gained after the drinks and snacks company raised its forecast for full-year earnings and

announced profit and revenue numbers that beat expectations. WEC Energy jumped after the company that supplies electricity and gas to Midwestern states announced first-quarter earnings that beat expectations thanks to strong demand for gas during winter and growth in its 'rate base'. McDonald's too benefited from the ability of its franchisees to raise prices to absorb higher input costs.

OUTLOOK

In the past 12 months, inflation pressures have proven to be more persistent than expected, leading central banks to increase the size and pace of their monetary tightenings. While this is likely to result in a slow peak in inflation, the trade off to the growth backdrop remains highly uncertain. We see three risks to this outlook.

The first risk is that consumer expectations of inflation become unhinged, triggering a wage-price cycle. This would prompt central banks to conduct more rate increases, which would put more downward pressure on economic growth. The second risk is an unexpected supply- or demand-side shock that worsens the outlooks for growth and inflation. There might be, for instance, a disruption to energy supplies or a loosening or tightening in fiscal-policy settings. The third risk is that economic growth slows more quickly or more significantly than expected yet central banks keep raising rates for too long or take them too high.

We are cautious about the outlook for equity market returns as we navigate the uncertainties and risks surrounding inflation and on June 30 held a cash balance of 9%. As economies slow, we expect overall earnings forecasts to be reduced and many companies to revise lower their outlook statements. Until the peak in interest rates and the likely path of growth become clearer, uncertainty will likely prolong volatility in stock markets.

PORTFOLIO POSITIONING

Top-10 holdings at 30 June 2022¹

Security	Weight (%)
Microsoft Corporation	7.8
Visa Inc	6.0
Alphabet Inc	5.6
MasterCard Inc	5.1
McDonald's Corporation	4.5
Yum! Brands Inc	4.3
Novartis AG	4.3
Reckitt Benckiser Group	4.0
Intercontinental Exchange Inc	3.9
Nestlé SA	3.6
Total	49.1

We believe our concentrated, high-conviction portfolio of 30 high-quality companies is positioned to deliver on our objective to create wealth for clients over the long term.

It is our conviction that high-quality companies will provide investors with the most reliable returns over the medium to long term. To be sure, returns from quality companies may lag over some short time frames, especially if investors are infatuated with mesmerising profitability forecasts that have a low probability of occurring in the medium to long term. History, however, has repeatedly shown that these periods are aberrations that are punctured when investor sentiment inevitably normalises. Indeed, this is what has happened over the past 12 months; investor risk appetite eventually deteriorated.

One of the strongest signs of a quality company – in fact, almost a prerequisite – is pricing power. With the surge in inflation over the past 12 months or so, companies with pricing power have proven their value to investors because they have swiftly passed on higher costs to customers and thereby protected their profit margins. This advantage is compounded when companies sell something that their customers are reluctant, or unable, to do without when prices rise. Over the past 12 months, companies with these characteristics have performed comparatively well owing to their 'defensive' nature. Our investments with these characteristics include:

- Consumer staples such as the UK-listed Reckitt Benckiser, Nestlé, PepsiCo and Procter & Gamble.
- Restaurant companies such as McDonald's, Yum! Brands (owner of KFC, Pizza Hut and Taco Bell) and Chipotle Mexican Grill that are enjoying an added boost to revenue and profit growth from new stores.
- Leading alcoholic spirits, luxury and beauty companies Diageo, L'Oréal and LVMH that have consistently displayed pricing power thanks to superb management of their large portfolio of prized brands and their low exposure to rising commodity costs.
- US utilities Eversource Energy, WEC Energy and Xcel Energy alongside telecommunications infrastructure provider Crown Castle International of the US that offer predictable cash flows thanks to regulation and strong growth in mobile data consumption respectively.

- Novartis, one of the world's largest and most diversified drugmakers. The medicine sales of the Switzerland-based group are relatively immune from the economic cycle

In the medium to long term, quality companies that are exposed to powerful and lasting thematic are rare and valuable. The portfolio's investment in such quality stocks includes:

- Leading western 'hyperscale' cloud providers that are part of Microsoft, Alphabet and Amazon. The shift to the public cloud is a long-duration thematic that we expect to grow about 20% p.a. to 2030. These companies are well placed because of their technological leadership and economies of scale.
- Enterprise software companies (Microsoft and SAP) that boost company productivity. Both are well positioned even as economic growth slows as companies look to operate more efficiently.
- Payments companies Visa and Mastercard that are leveraged to the cash-to-cashless transition that was turbocharged during the pandemic. Moreover, they benefit from faster inflation (by clipping the ticket on the value of personal consumption expenditures) and the reopening of international borders, which boosts their revenue from high-margin cross-border transactions.
- Companies leveraged to digital advertising (Alphabet, owner of Google, and Meta Platforms, owner of Facebook, Instagram and WhatsApp) that have privileged positions in the industry and offer customers compelling returns on their advertising spending. Moreover, their scalable business models mean they enjoy high profit margins.
- Companies benefiting as economies reopen such as those exposed to international travel (European-listed Amadeus IT, LVMH and Safran) and people socialising outside of home (Diageo, the world's largest distiller).
- Companies in industries where strong demand looks set to continue into the medium term. ASML is an essential part of the global semiconductor chip market that is forecast to grow by 7% p.a. and become a US\$1 trillion industry by 2030. The Netherlands-based company has a near monopoly in manufacturing advanced lithography machines that build the world's most advanced and miniaturised chips. Home-improvement retailer Lowe's is benefiting from the thriving US residential property market, where household formation rates are outstripping homebuilding. HCA Healthcare is a leading US hospital operator with an exceptional record of operational excellence that is benefiting from the need for healthcare and medical procedures in an ageing US society.
- A company that provides essential financial markets infrastructure, Intercontinental Exchange, which operates some of the largest futures and equities marketplaces and has a leading position in the sprawling mortgage-technology market.



Nikki Thomas



Arvid Streimann

MAGELLAN GLOBAL EQUITY STRATEGY

Performance (USD) as at 30 June 2022²

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
Magellan Global Equity Composite (Gross)	-18.1	2.8	7.5	7.9	10.6	10.3
Magellan Global Equity Composite (Net)	-18.7	2.0	6.7	7.1	9.7	9.4
10% p.a. Objective Excess (Gross)	-28.1	-7.2	-2.5	-2.1	0.6	0.3

Capital Preservation Measures³

Adverse Markets	Last 36 months	Last 60 months	Since inception 178 months
No. of observations	12	19	56
Outperformance consistency	42%	58%	82%
Down Market Capture Ratio	0.9	0.8	0.5

MFG GLOBAL PLUS STRATEGY

Performance (USD) as at 30 June 2022⁴

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
MFG Global Plus Composite (Gross)	-17.9	2.8	7.5	7.9	-	8.8
MFG Global Plus Composite (Net)	-18.6	2.0	6.6	7.0	-	7.9
10% p.a. Objective Excess (Gross)	-27.9	-7.2	-2.5	-2.1	-	-1.2

Capital Preservation Measures⁵

Adverse Markets	Last 36 months	Last 60 months	Since inception 106 months
No. of observations	12	19	30
Outperformance consistency	42%	58%	73%
Down Market Capture Ratio	0.9	0.8	0.7

- 1 Holdings based on a representative portfolio for the Global Equity strategy.
 - 2 Returns are for the Global Equity Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Inception date is 1 July 2007. 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. Refer to the GIPS Disclosure section below for further information.
 - 3 Capital preservation measures are calculated based on the Global Equity Composite before fees in USD. An Adverse Market is defined as a negative 3-month return for the MSCI World NTR Index (USD)⁺, rolled monthly. The Down Market Capture Ratio shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much. Inception date is 1 July 2007 (inclusive).
 - 4 Returns are for the Global Plus Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. 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. Inception date is 1 July 2013 (inclusive). Refer to the GIPS Disclosure section below for further information.
 - 5 Capital preservation measures are calculated based on the Global Plus Composite before fees in USD. An Adverse Market is defined as a negative 3-month return for the MSCI World NTR Index (USD)⁺, rolled monthly. The Down Market Capture Ratio shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much. Inception date is 1 July 2013 (inclusive).
- + All data 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.magellangroup.com.au/funds/benchmark-information/.

IMPORTANT INFORMATION

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited trading as MFG Asset Management ('MFG Asset Management') and an investment fund or investment strategy managed by MFG Asset Management ('Strategy'). 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 must rely on your own examination of any offering documents relating to the Strategy.

The investment program of the Strategy presented herein 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 of MFG Asset Management. 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 an MFG Asset Management 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. MFG Asset Management makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. MFG Asset Management 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.

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. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of MFG Asset Management. Further information regarding any benchmark referred to herein can be found at www.mfgam.com.au. Any third-party trademarks contained herein are the property of their respective owners and MFG Asset Management claims no ownership in, nor any affiliation with, such trademarks. Any third-party trademarks that appear in this material are used for information purposes and only to identify the company names or brands of their respective owners. No affiliation, sponsorship or endorsement should be inferred from the use of these trademarks.

All data 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.mfgam.com.au.

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 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.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) 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 MFG Asset Management, excluding portfolios managed by brands operating as distinct business entities. MFG Asset Management is a wholly-owned subsidiary of the publicly listed company Magellan Financial Group Limited. MFG Asset Management is based in Sydney, Australia. Total Firm assets is defined as all portfolios managed by MFG Asset Management, excluding assets managed by brands operating as distinct business entities.

The Global Equity 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 Equity strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The composite was created in December 2011.

The Global Plus 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 Plus strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The minimum market capitalisation for a stock to be included is US\$25 billion. The composite was created in July 2013.

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.

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. The representative portfolio for the Global Plus composite changed in July 2017 due to the closure of the former representative portfolio. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

USD is the currency used to calculate performance.