MFG Global Sustainable (USD)

MFG ASSET MANAGEMENT

AS AT 31 MARCH 2024

PORTFOLIO MANAGER ALAN PULLEN

INVESTMENT PHILOSOPHY	OBJECTIVES	PORTFOLIO CONSTRUCTION
To invest in outstanding companies at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk.	Seek to achieve attractive risk-adjusted returns over the medium to long term while reducing the risk of permanent capital loss. Am to deliver carbon intensity less than 1/3 of MSCI World Index.	High conviction (20 - 50 securities), high quality focus. Portfolio construction with dynamic allocation to cash (typical exposure between 0% - 20%). Combined Risk Ratio cap of 0.8^. Integrated ESG with proprietary, multidimensional carbon emissions management.

MAGELLAN GLOBAL SUSTAINABLE (USD)

TOTAL STRATEGY ASSETS	TOTAL GLOBAL SUSTAINABLE ASSETS[1]	INCEPTION DATE
USD $329.5 million	USD $329.5 million	1 October 2016

USD PERFORMANCE[2]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY*
Composite (Gross)	7.3	27.1	8.3	10.2	10.8	11.0	31%
Composite (Net)	7.0	26.1	7.4	9.3	9.9	10.1	31%
MSCI World NTR Index[+]	8.9	25.1	8.6	12.1	11.1	11.5	-
Excess (Gross)	-1.6	2.0	-0.3	-1.9	-0.3	-0.5	-
MSCI World Low Carbon NTR Index[+]	8.8	25.2	8.3	12.1	11.0	11.4	-

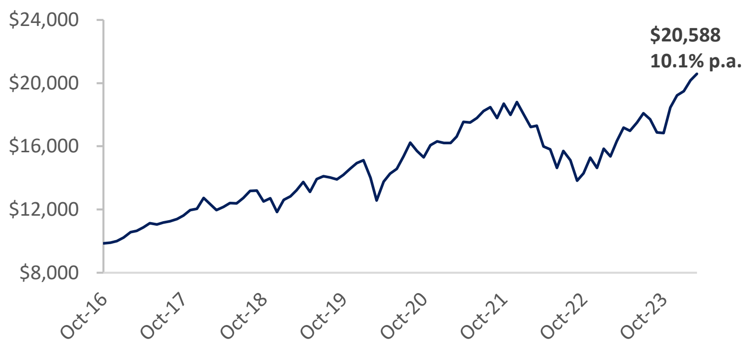
CALENDAR YEAR RETURNS[2]	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)**
Composite (Gross)	7.3	32.5	-21.6	16.3	10.1	27.2	-1.0	21.4	0.3
Composite (Net)	7.0	31.5	-22.2	15.3	9.2	26.2	-1.8	20.4	0.1
MSCI World NTR Index[+]	8.9	23.8	-18.1	21.8	15.9	27.7	-8.7	22.4	1.9
Excess (Gross)	-1.6	8.7	-3.5	-5.5	-5.8	-0.5	7.7	-1.0	-1.6
MSCI World Low Carbon NTR Index[+]	8.8	23.7	-18.8	21.5	16.5	28.5	-8.9	22.2	1.4

Past performance does not predict future returns.

STRATEGY FUNDAMENTALS[3]

Number of Holdings	26
Carbon Intensity (CO_2t/US$1m revenues)	Strategy: 28 Index[+]: 96
Return on Equity (%) (Trailing 1 year)	32
P/E Ratio (1 year forward)	23
Interest Cover (EBIT/interest expense)	14
Weighted Average Market Cap (USD million)	692,611

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



Past performance does not predict future returns.

[1] Comprised of all Global Sustainable strategies.

[2] Returns are for the Global 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 October 2016. 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] Strategy Fundamentals are based on a representative portfolio in the strategy. Certain information ©2024 MSCI ESG Research LLC. Reproduced by permission. The Fund's 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 score for certain investments held by the fund.

[^] 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.

[+] 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.mfgam.com.au/funds/benchmark-information/

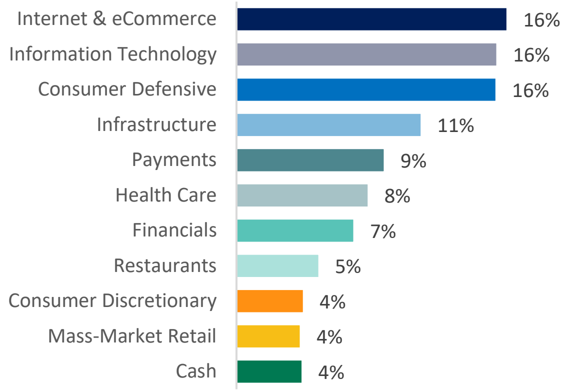
[*] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

[**] Part year return.

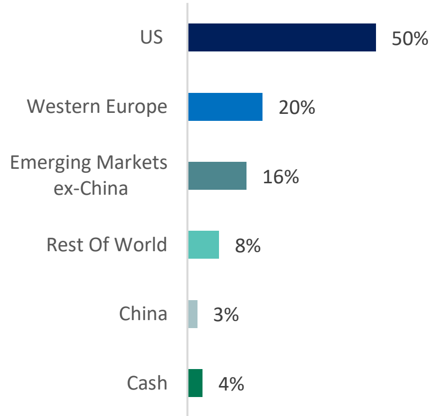
TOP 10 HOLDINGS[4]

STOCK	SECTOR	%
Microsoft Corporation	Information Technology	7.4
Alphabet Inc	Internet & eCommerce	7.1
Nestlé SA	Consumer Defensive	7.0
Amazon.com Inc	Internet & eCommerce	4.8
Meta Platforms Inc	Internet & eCommerce	4.5
Eversource Energy	Infrastructure	4.1
Booking Holdings Inc	Consumer Discretionary	4.1
Intercontinental Exchange Inc	Financials	4.0
UnitedHealth Group Inc	Health Care	4.0
SAP SE	Information Technology	4.0
	TOTAL:	51.0

SECTOR EXPOSURE BY SOURCE OF REVENUE[4]



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[4]



[4] The data is based on a representative portfolio in the strategy. 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 equity markets posted strong returns in the March quarter, with the MSCI World Index rising 8.9% in USD. The sectors with the largest gains were Communication Services (up 13.7%), followed by Information Technology (12.8%) and Financials (12.0%), while the laggards were Utilities (down 2.2%), Consumer Staples (-4.8%) and Materials (-5.6%). The Nikkei 225 rose 20.6% in the quarter, outpacing the S&P 500 (10.2%), STOXX Europe 600 (7.0%), S&P/ASX 200 Accumulation Index (5.3%) and the MSCI Emerging Markets Index (1.9%). China's CSI 300 rose 3.1%.

The main drivers of these strong returns were improved earnings outlooks and sentiment. US economic data released during the quarter were stronger than expected, though not strong enough to suggest that a broad-based reacceleration in inflation was likely. Earnings results for the December quarter released in the March quarter led to sizeable earnings upgrades. Overall, this dataflow saw investors reduce the number of quarter percentage point (0.25%) Federal Reserve rate cuts they expect by the end of 2024 from six to three, while also pushing up the US 10-year Treasury yield by 30bp to 4.2%.

In Europe, several countries including Germany, Finland, the UK and Ireland entered a technical recession by posting two consecutive quarters of negative GDP growth for the second half of 2023. The 10-year German government bond yield increased 30bp to 2.3%, a move broadly in line with movements in global sovereign bond yields.

In Japan, the Bank of Japan ended its negative interest policy that had been in place since 2016. Japanese equity returns have benefited from corporate governance changes that promote returns and a return of inflation, which boosts nominal growth rates. The yield on Japanese 10-year government bonds rose 10bp to end the quarter at 0.7%. While the Chinese authorities are also attempting to improve corporate profitability, we believe that relatively low trading multiples in China are justified by permanent political and governance risks and the more difficult economic backdrop in the medium term.

Strategy Commentary

The strategy delivered strong absolute performance in the quarter, albeit slightly below market returns, reflecting conservative positioning. Key contributors for the quarter included Meta Platforms, SAP and TSMC. Meta reported a solid 4Q23 result and provided much-stronger-than-expected 1Q24 revenue guidance, benefiting from strong user engagement trends, broad-based improvements in advertiser demand and strong traction of its Reels and AI ad performance products. Market conviction in Meta's AI-related growth opportunities and improved management focus on cost discipline and shareholder returns continues to build. SAP reported a solid Q4 result with accelerating cloud growth and an implicit raise of its mid-term 2025 EBIT and FCF guide. It also announced a €2b restructuring program as it reinvests in AI capabilities for its products and internal operations. Overall, the result supported SAP's cloud growth thesis and we remain positive on the momentum and resilience of core ERP. TSMC delivered a modest Q4 beat on what the company described as recovering from a bottoming-out and provided strong FY24 revenue growth guidance in the low to mid-20s in USD, implying FY24 revenue 6.5% ahead of our estimates at the midpoint. The guidance increased investor confidence on demand recovery and comported with ASML's bookings strength.

Key detractors included Reckitt, American Tower and UnitedHealth Group. Reckitt was affected by weaker-than-expected sales volumes in the 4Q result as well as an unexpected accounting issue in its Middle East business. It was further affected by a jury verdict over an outstanding lawsuit awarding $60 million to a plaintiff citing US infant formula manufacturers failed to communicate elevated risks of infants developing necrotising enterocolitis when fed preterm infant formula under the care of neonatologists in hospital. Both the ruling against Reckitt as well as the magnitude of the award were unexpected. The market reaction to these events suggests much of the future obligation from similar product liability lawsuits is in the price. American Tower underperformed on higher US interest rates, to which it is particularly sensitive given fixed escalators and higher leverage. For UnitedHealth Group the upcoming US elections are affecting the regulatory backdrop for US managed care organisations, with lower-than-expected reimbursement decisions and anti-trust investigations announced in the quarter. In addition, the company was affected by a cyber security breach. We view these issues as short term and transitory, with plan re-pricing and re-designs as well as operating expense savings as key offsets.

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

Developments in Sustainability

In March 2024, the EU AI Act was approved by the European Parliament. This is a significant piece of regulation to mitigate the social and human rights risks of AI. The use cases of AI are categorised and restricted according to whether they pose an unacceptable, high or low risk to human safety and fundamental rights. It is important for technology providers and users of AI to adhere to this regulation as penalties can include bans and fines. The Magellan Investment Team discuss the social and regulatory risks of AI in our Insights piece: Social and Regulatory Risks of AI – Magellan Financial Group (magellangroup.com.au).

In February 2024, Magellan signed the 2024 Investor statement on Ethical AI. As a new member of the Collective Impact Coalition (CIC) for Ethical AI, we are happy to share that the CIC for 2024 has been launched.

The main Global Annual General Meeting (AGM) season commenced in March. Similar to 2023 we continue to see an increase in sustainability-related shareholder proposals. The proposals are focused on shareholder rights, and the management of material risks ranging from health and wellness to climate, diversity and human rights.

Outlook

That markets continued rally in Q1 was partly justified by solid fundamentals, with strong earnings for many of our companies and the macroeconomic backdrop largely stable. Nonetheless, valuations remain full and downside risks are evident in the shorter term should earnings or the macroeconomic backdrop deteriorate. Indeed, indicators suggest inflation may remain higher than target levels, prompting the Federal Reserve to delay anticipated rate cuts even further. At current market valuations there is little room for such an outcome, and we continue to position the portfolio conservatively.

Over the long term, we consider that our companies remain well placed to deliver solid earnings growth in the years ahead, reflecting their high quality, strong free cash flow generation, and the benefit of long-term structural tailwinds such as AI adoption.

Stock Story: Mondelez

(Lucina Martin – Investment Analyst)

Over the last decade, Mondelez, one of the world's largest snacking companies, has evolved and strengthened its economic moat, reaccelerated growth and increased the reliability of its earnings algorithm.

Although Mondelez itself is a young company, following the split from Kraft Foods in 2012, it stands on the shoulders of a portfolio of iconic, century-old brands including Cadbury, Oreo, Milka and Ritz. Its global biscuit and chocolate categories have delivered steady compound growth of ~+4.5% between 2009 and 2023* and exhibited strong pricing power, rational competition and minimal disruption from private label manufacturers. Thanks to its differentiated brands, product innovation and marketing, Mondelez holds dominant #1 and #2 market share positions in these categories, which together account for 80% of its $36b global revenue base. As a result of its dominance, Mondelez is in a position of strength to negotiate with its key retail partners on pricing programs, shelf allocation and innovation launches. Likewise, its scale advantage across marketing, distribution, research and development, and ingredient procurement are the key foundations of its economic moat.

However, there have been times in the company's history, most recently 2014 to 2018, when poor execution weighed on top-line growth and brand momentum. Mondelez's previous governance structures were rigid, and decision-making was centralised and top-down focused. Prior management teams were too concentrated on cost control and short-term profitability at the expense of innovation and marketing reinvestments to support the long-term brand equity of the portfolio. While global 'power brands' remained a focus, unfortunately there was a long tail of underperforming local brands, which weighed on growth, created complexity within its manufacturing operations and affected their trusted partner status with key retailers.

The acceleration in Mondelez's growth in more recent years has been driven by the culmination of various deliberate actions by the current management team to introduce a longer-term mindset to brand investments and portfolio management. The prior organisational structure was redesigned, decentralising core operations to bring greater decision-making power to the regional teams who know the local consumer best. Complementing this, a new remuneration framework was introduced to incentivise balanced revenue growth and sustainable margin expansion. Importantly, this framework also aimed to minimise short-term, irrational decisions such as excessive discounting to boost market share growth, and underinvestment in marketing to achieve profitability targets.

**Source: Euromonitor*

These improved foundations have bolstered the key tenets of Mondelez's economic moat and unlocked growth across the business. Since the strategy was first implemented in 2018, the business has delivered ~+8% organic revenue growth and ~+12% constant currency EPS growth, which are well above its long-term objectives of +3-5% and +7-9% respectively. The company has achieved these objectives despite increasing its advertising budget by around 75% and investing in strategic capabilities such as consumer analytics, manufacturing automation and various digital tools to optimise procurement planning and reduce wastage.

Mondelez's in-depth knowledge of its snacking consumer is a key competitive advantage, particularly as the company continues to evolve its portfolio alongside changing consumer preferences. Recently, Mondelez has disposed of certain chewing gum and high-sugar candy brands while remaining focused on its core biscuits and chocolate products that consumers continue to seek out as permissible indulgences. The advent of GLP-1 weight-loss drugs will likely create new consumption trends for a subset of Mondelez's developed market consumers, which the company will need to monitor closely and continue to adapt to. Meanwhile in emerging markets, which account for 39% of total revenue, tailwinds to category growth from rising middle class incomes, premiumisation and expanding distribution to new cities should be enduring.

Mondelez's consumer data advantage, sophisticated manufacturing and distribution capabilities as well as its financial capacity to acquire new brands, position it well to continue to evolve its portfolio and remain an incumbent snacks player over the long term. A capable management team, together with improved governance and incentive structures, further enhances our conviction.

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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.

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The Global Sustainable composite is a concentrated global equity strategy investing in high quality companies (typically 20-50 stocks) with an integrated ESG risk assessment process, including a low carbon overlay and specific ESG exclusions on societal grounds related to either material manufacturing or retail exposures to Tobacco, Alcohol, Gambling, Controversial Weapons, Civilian Firearms, Adult Entertainment and other activities that Magellan may specify from time to time. 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 Sustainable strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss with specific ESG exclusions and a meaningfully lower carbon intensity than broader equity markets. The composite name was changed from Global ESG to Global Sustainable on 1 November 2020 following the restructure of our Global Sustainable product offerings into two distinct strategies, one with additional ESG exclusions and one without. The Global Sustainable strategy does apply additional ESG exclusions.

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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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. The representative portfolio for the Global Sustainable strategy changed on 1 November 2020 following the removal of the additional ESG exclusions from the previous representative portfolio.

USD is the currency used to calculate performance.