

MFG GLOBAL SUSTAINABLE (USD)



Alan Pullen
Portfolio Manager

Portfolio of 20 to 50 high quality global companies that meet our low-carbon investment guidelines that is designed to achieve attractive risk-adjusted returns and preserve capital in adverse markets.

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Dear Investor,

It has been a busy year for the MFG Global Sustainable Strategy as we navigate markets and progress with our ESG initiatives. However, before proceeding to the update on markets, performance, and of course our view on the most talked-about issue of 2023 so far - Generative AI - I'd like to acknowledge the recent departure of Dom Giuliano. Dom has been with MFG Asset Management for more than 15 years and was a key figure in implementing our ESG drive, including launching the MFG Global Sustainable Strategy in October 2016. Dom was the architect of the Low Carbon Framework, a comprehensive approach to addressing carbon risks, which has delivered a portfolio that aims to effectively eliminate stranded asset risk and has a carbon intensity (measured as tonnes of CO₂ per million dollars of revenue) typically below 30. For a sense of perspective, this is approximately one-fifth the carbon intensity of broad market indices and materially below most so-called "low carbon" indices. Dom is certainly going out on a high performance-wise, with the fund delivering a return of 21.5% in the calendar year-to-date, 4.3% ahead of the index.

On a more personal note, it has been a pleasure to work with Dom. He is a highly intelligent, ethical, and passionate investor who never forgot it was clients' money we were investing, and he did so with care and skill. He is also a good friend. Dom and I worked closely my entire career at Magellan, which now stretches beyond a decade; in fact, it was Dom who hired me

as an analyst when he was head of the Financials team. I went on to lead that team as Dom moved into the Deputy CIO and then Head of ESG roles. We both became Portfolio Managers of Sustainable strategies last decade, with Dom the PM of the MFG Global Sustainable Strategy since 2016 and I the PM of the US Sustainable Strategy since 2017. We had regular PM meetings to discuss markets, stocks, geopolitics, my appalling lack of fashion sense, and anything else that came to mind. Dom has made an enduring contribution to the MFG Global Sustainable Strategy, and I wish him the best in his future endeavours.

Big shoes to fill but rest assured that the Magellan team and I will continue to implement Magellan's robust process – investing in high-quality companies at attractive valuations within a comprehensive risk management and ESG framework – with care and skill. The existing strategy I manage, the US Sustainable Strategy, has delivered compound returns of 15% per annum (in USD terms) since inception (31 December 2016), well above the S&P 500 Index. There is significant overlap of companies between the US Sustainable Strategy and MFG Global Sustainable Strategy and I look forward to working towards delivering our investment objectives for the MFG Global Sustainable Strategy.

The ESG investment landscape continues to evolve and the number of initiatives Magellan is pushing forward with only increases. That's why it is fantastic to have Amy Krizanovic, an experienced ESG professional who joined us a year ago and has been leading many of our ESG initiatives, officially take on the role of Head of ESG. That's right, it takes two people to replace Dom! Amy, Elisa Di Marco and I, along with the entire investment team, will continue to develop our ESG processes, including (but certainly not limited to) implementing the Net Zero Asset Manager initiative, enhancing company engagement, improving integration of our ESG risk scores into the portfolio management process, Modern Slavery assessments, and the list goes on. It will be another busy year ahead on the ESG front, but we are determined to remain leaders in Australian ESG investment.

Now on to the topic du jour; no investor letter this year will be complete without a comment on the implications of generative AI. In some ways AI has been a long time coming (read our



June 2016 Investor letter for reference) yet it still seemed to arrive all at once with the release of ChatGPT. Given all the commentaries that have been dedicated to the subject I won't rehash the basics here, but suffice to say we believe this is the real deal. Unlike some other recent technology "breakthroughs", such as the

distributed ledger (block chain) and Metaverse, that turned out to be overhyped and have limited real-world impact (at least so far), generative AI has real-use cases today and will have a significant impact on many industries and companies. We have undertaken a comprehensive risk assessment of our portfolio holdings, and I'm pleased to report our initial view is the impact could range from largely immaterial to significantly positive. These include relatively straightforward cost savings from greater efficiency in back-office processes, marketing, etc., to significant increases in demand for cloud computing services dominated by Microsoft (one of the clearest beneficiaries of Generative AI), Amazon and Google.

Notwithstanding this initial assessment, developments in generative AI are progressing rapidly and we remain cognisant of the risk of disruption to existing industries and companies and the potential emergence of AI-native competitors. Most at risk appear to be companies that undertake relatively repetitive white-collar tasks that can be outsourced to AI – think basic accounting or basic legal work, which will become commoditised. However, as Generative AI continues to develop, more complex tasks may be addressed, including medicine, creative pursuits, and (dare I say it!) investment analysis.

There will be more to come from us on these potential developments; I look forward to updating you for many years on AI and the progress of the MFG Global Sustainable Strategy. In the meantime, we remain committed to investing conservatively to protect your capital and deliver attractive returns through the economic cycle.

MARKET COMMENTARY

Global shares gained in the June quarter, with the MSCI World Index adding 6.8% in USD and 7.5% in AUD as the Federal Reserve approached the end of its rate-hiking campaign, US bank turmoil eased with few observable new casualties and optimism about the potential of recent developments in AI continued. Nine of the eleven sectors advanced in local currency terms, but gains were largely concentrated in the Information Technology (+15.0%), Consumer Discretionary (+11.3%) and Communication Services (+10.2%) sectors that benefited from growing confidence in the potential for AI to drastically influence societies and economies. The detractors were the Energy (-1.0%) and Utilities (-0.7%) sectors that fell as the outlook for commodity prices softened.

On a regional basis, Japanese shares, as measured by the Nikkei 225 index, added 18.4% on growing confidence in the

outlook for profit growth and still accommodative monetary policy pursued by the Bank of Japan under new leadership. US shares were the other standout performer, with the S&P 500 rising 8.3% in the June quarter on the back of continued excitement about developments in AI and signals that the Federal Reserve was nearing the end of its rate-tightening cycle as inflation continued to improve. Importantly, economic momentum in the US appeared to be relatively sound, with unemployment still low, and construction activity assisted by increased homebuilder confidence and the Inflation Reduction Act.

Across the Atlantic, pressures on economic activity have been larger and inflationary pressures more intense, partly because wages in Europe are more often contractually tied to past increases in consumer prices than in the US and are hence stickier. The Euro Stoxx 600 added just 0.9% during the quarter. Australia's ASX 200 increased 1.0%.



Chinese shares meanwhile came under pressure, with the CSI 300 index falling 5.1% as fears about the Chinese economic recovery continued to mount. Expectations for a reopening boom have failed to materialise so far this year, forcing policymakers to step in with some incremental interventions to increase stimulus during the quarter. To date, interventions have been small scale rather than material as policymakers balance competing priorities including reducing leverage in the system.

Global shares rose in the past 12 months, with the MSCI World Index rising 18.5% in USD and 22.4% in AUD, despite an aggressive tightening of monetary policy from global central banks, turmoil in the banking sector, and elevated geopolitical tensions. The key drivers of the positive sentiment included rapid advances in Artificial Intelligence, still solid economic momentum in the US and signs that inflation, while still too high, was likely to steadily improve (reducing the need for such high interest rates). All but one of the eleven sectors rose in local currency terms, with Information Technology (36.7%) and Industrials (27.0%) adding the most. The Real Estate sector fell -5.5% after continued pressure on office landlords from high vacancy rates and high interest rates, the former a symptom of post-pandemic work-from-home policies.

US shares rose, with the S&P 500 adding 17.6% in USD in a 12 month period that included the release of ChatGPT by OpenAI, turmoil in the US banking sector, the mid-term elections, a showdown over the Federal debt ceiling, and continued geopolitical tensions between the US and China, which included a suspected Chinese spy balloon being shot down by a US fighter jet off the East Coast of the US. The Federal Reserve increased interest rates by 350bp to 5.0-5.25% before pausing at its June meeting, with inflation much improved over the past year. The consumer price index rose 4.0% in the 12 months to May, down from 8.6% a year earlier. Long-term risk-free interest rates such as the 10-year US Treasury yield remained relatively well-contained, ending the period at 3.81%.

European shares also increased in the past year, with the Euro Stoxx 600 index rising 13.4% in Euro terms. The European economy was more resilient than expected to the winter energy shock caused by the Russian invasion of Ukraine as LNG imports and alternative sources of energy supplemented the shortfall and weather proved milder than historical averages. But, economic growth including in the German industrial base ended the period at stagnant levels. Interest rates rose sharply in Europe too, with both the European Union and the United Kingdom struggling with much-too-high inflation. A resolution of the war in Ukraine looks no closer, with limited progress made during the much-anticipated Ukrainian counteroffensive that began in May.

Japanese shares stood out in Asia, as the Nikkei 225 advanced 25.7% on the back of strong Japanese earnings growth and still accommodative monetary policy at the Bank of Japan. Chinese shares, as measured by the CSI 300 index, fell 14.3% after optimism that the reopening of the Chinese economy would kickstart growth faded. Towards the end of the period, Chinese policymakers began to ease policy further, but we have yet to see the type of large-scale stimulus unleashed post the global financial crisis that accelerated the growth of Chinese industry. Australian shares ended the period 14.8% higher.

DEVELOPMENTS IN SUSTAINABILITY

Regulation was centre stage during the quarter. IFRS Foundation’s International Sustainability Standards Board (ISSB) officially announced the new global sustainability and climate disclosure standards for annual reporting periods beginning January 2024. Individual jurisdictions will determine whether these standards will be mandatory and the timeline for implementation. In addition, the EU Parliament voted on new rules that require companies to not only identify risk exposures but to report on the impact of their activities related to human rights and the environment. Failure to comply could lead to punitive fines. These are important initiatives to drive improved transparency and comparability on sustainability reporting.

The northern hemisphere’s main Annual General Meeting and proxy-voting season drew to a close. Board structure and executive compensation remain the focus for management proposals, and 2023 saw another busy season for shareholder proposals. Key topic areas include climate, diversity, equity and inclusions, human rights, plastics, content and privacy of data as well as consideration of shareholder rights.

Climate risk was a focus in the past 12 months, with the announcement of the US Inflation Reduction Act (IRA) providing significant funding to support and accelerate the transition. The positive impact of the IRA will be seen

by US consumers and companies for years to come. The United Nations’ annual Climate Change Conference (COP27) was also a key event. Positively, the conference concluded with the announcement of a ‘Loss and Damage Fund’, to assist nations

most vulnerable to climate change. The United Nations Biodiversity Conference (COP15) also had positive outcomes. After more than four years of negotiations, governments (remarkably not the US) signed the Kunming-Montreal Global Biodiversity Framework. Within the agreement are four long term 2050 goals supported by 23 global 2030 targets; these includes the 30 by 30 target, which aims to protect 30% of the planet for nature by the end of the decade, restore 30% of the planet’s degraded terrestrial, inland water, coastal and marine ecosystems and reform \$500bn of environmentally damaging subsidies.

We also saw significant progress towards improved regulation of sustainability reporting and risk management. The European Parliament and European Commission have announced new rules for packaging and waste, as well as reporting on risks related to human rights and the environment. In addition, global standards from IFRS Foundation’s International Sustainability Standards Board (ISSB) on climate disclosure and Taskforce on Nature-related Financial Disclosures (TNFD) are further honing their draft framework for nature-related risk management and disclosure. These are important steps towards improved and consistent reporting on sustainability issues to give investors more confidence in the identification and management of these risks.

While there are potential benefits from AI across many industries including technology, healthcare and clean energy, investors and regulators are focused on Responsible AI with the launch of ChatGPT earlier in the year. Regulations across many jurisdictions are being developed, for example in the EU a draft AI Act was recently passed by parliament. This is to ensure AI systems are safe, transparent, traceable, non-discriminatory and environmentally friendly.

The last 12 months weren’t all supportive of disclosure and management of ESG risks. States in the US remain divided on the regulation of climate change and ESG investing. This has led to some companies sanitising their commentary regarding ESG to remain bipartisan, and others pulling back on ESG expenditure.

PORTFOLIO COMMENTARY

The portfolio delivered strong returns over the quarter. Top contributors included Meta Platforms, Microsoft and Amazon. Meta’s strong performance reflected an increase in market confidence in its ability to reaccelerate revenue growth and utilise AI solutions to drive higher user engagement and ad performance. Investor sentiment towards Microsoft improved meaningfully over the quarter as it is seen as an early leader in the rapidly developing generative AI space. Recent developments support our thesis that Microsoft is uniquely positioned to capture new market opportunities beyond traditional IT spend. Sentiment towards Amazon also improved over the quarter, reflecting: 1) solid progress in improving efficiency in Retail; 2) the bottoming of forward growth expectations for AWS as optimisation headwinds eased; and 3) increasing appreciation of the ramifications for Amazon of rapid developments in generative AI.

The three largest detractors were Dollar General, PayPal and US Bancorp. Dollar General downgraded its full-year guidance as low-income consumers faced significant macro



headwinds associated with the reduction of fiscal benefits. The company's 1Q23 result also raised questions about the need for further price and labour investments, though we believe these concerns are overblown. PayPal's underperformance was driven by disappointing trends in gross margins (i.e. the difference between PayPal's revenue and the cost of accepting payments), caused by slower growth in its highest-margin businesses. US Bancorp was impacted by market turbulence following the failure of several US banks over the past few months, including First Republic Bank in May. As the fifth

largest US bank, US Bancorp is well positioned to weather current US banking sector issues and is undervalued post the sector-wide sell-off.

The latest quarter consolidated what has been a very positive year for the fund. The annual contributors largely matched those of the final quarter with Meta and Microsoft two of the top three contributors for the year. They were joined by

SAP, which benefited from an acceleration in revenue growth underpinned by resilient cloud growth in SAP's cloud-based Enterprise Resource Planning software offering, S/4HANA. S4 has strong momentum and provides scope for further upside.

Two of the top three detractors also overlapped with those of the latest quarter, namely Dollar General and US Bancorp. They were joined by American Tower, which as a relatively "bond like" lower risk infrastructure company was impacted by rising interest rates over the year. Given our view that the bulk of the increase in long-term rates is likely now behind us we view American Tower as a quality, highly defensive, position within the portfolio.

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

PORTFOLIO POSITIONING

Portfolio activity has been modest over the past quarter, with two positions exited and entered. The two positions sold were Chipotle and PayPal. Chipotle was sold on valuation grounds following its strong share price performance over the past few years. The company continues to execute well and has a solid store rollout opportunity ahead, but this now appears to be largely priced in with the stock trading on a forward PE ratio of more than 40 times. PayPal was exited following disappointing results that called into question the long-term thesis for the stock. We are typically happy to look through short-term issues with our companies knowing their quality will see them rebound strongly over the medium term. However, we are much more wary of potential structural issues, and online payments is a fast-moving space where it is possible PayPal's core business is losing share to newer payment methods. Admittedly, trends are difficult to discern given the company's limited disclosure, and this contributed to our decision to exit the position.

The additions were Mondelez and CME Group. Mondelez is one of the world's largest snacks companies and owns some of the world's most iconic food brands, including Cadbury

chocolate and Oreo cookies, among many others. The company has been effective in growing market share and revenues over the past year, driven by both volumes and pricing, unlike many peers in the consumer space who have relied exclusively on price. It offers a high-quality, defensive exposure. CME Group provides essential market infrastructure as the world's largest derivatives exchange. It has near monopolies on key futures contracts covering interest rates, equities, foreign exchange, agricultural commodities, energy and metals. Trading volumes tend to increase in times of market turmoil as customers look to manage risk using CME's products, generating a relatively defensive earnings profile.

When looking over the past 12 months, other additions were Dollar General, UnitedHealth Group and American Tower, while Netflix, Red Eléctrica, Verisign and Fraport were exited. Overall the portfolio remains defensively positioned, reflective of relatively full market valuations notwithstanding a still-uncertain economic environment.

OUTLOOK

We remain cautious on the economic outlook; while inflationary pressures are beginning to ease the inflation rate remains elevated and central banks around the world continue to increase policy rates. The market appears to be largely pricing in a Goldilocks scenario, with central banks tapping the brakes sufficiently to bring inflation under control, but not so much as to trigger a deep recession. To be fair, the consumer has, to date, proven relatively resilient, buffered by excess savings built up during covid. Our base case remains that inflation is brought back under control with only a mild recession. However, monetary policy works with long and variable lags, making such precision by central banks difficult to achieve. There remains a risk that the economy experiences a deeper-than-anticipated recession as savings buffers are exhausted and consumers and businesses cut spending. Indeed, if inflation proves stubbornly high, central banks may be forced to raise rates further than anticipated, ultimately forcing the recessionary outcome above.

We have confidence should major economies enter a recession in the coming 12 months that the portfolio is well positioned. This reflects the downside protection built into the portfolio construction process as well as the high-quality companies held in the strategy. Notwithstanding potential macroeconomic risks, portfolio companies are currently generally performing well, growing revenue and earnings at attractive rates and generating significant levels of free cash flow. Valuations are full, but far from extreme, and our forecasts are currently indicative of total shareholder returns over the next three years exceeding our objective (although of course this cannot be guaranteed).

Thank you for your ongoing support

Yours sincerely,



Alan Pullen

July 2023

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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.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

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For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management, excluding brands managed by subsidiaries 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 assets managed by MFG Asset Management, excluding assets managed by subsidiaries operating as distinct business entities.

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. MC391

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.

Am to deliver carbon intensity less than 1/3 of MSCI World Index.

PORTFOLIO CONSTRUCTION

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 \$313.6 million	USD \$313.6 million	1 October 2016

USD PERFORMANCE²

	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY*
Composite (Gross)	7.5	20.5	7.1	8.0	9.5	37%
Composite (Net)	7.2	19.6	6.3	7.2	8.7	37%
MSCI World NTR Index ⁺	6.8	18.5	12.2	9.1	10.3	-
Excess (Gross)	0.7	2.0	-5.1	-1.1	-0.8	-
MSCI World Low Carbon NTR Index ⁺	7.0	18.3	11.9	9.1	10.1	-

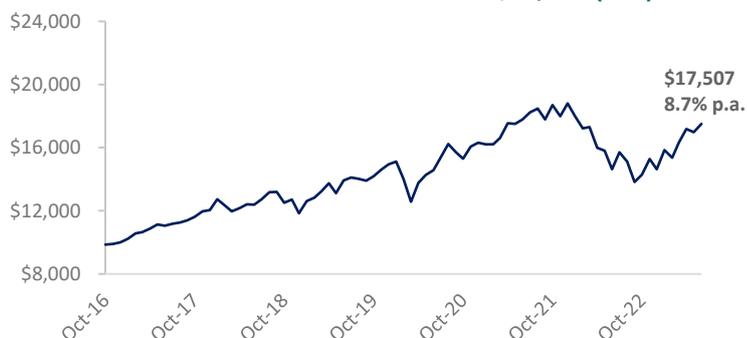
CALENDAR YEAR RETURNS	CYTD (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)**
Composite (Gross)	20.1	-21.6	16.3	10.1	27.2	-1.0	21.4	0.3
Composite (Net)	19.7	-22.2	15.3	9.2	26.2	-1.8	20.4	0.1
MSCI World NTR Index ⁺	15.1	-18.1	21.8	15.9	27.7	-8.7	22.4	1.9
Excess (Gross)	5.0	-3.5	-5.5	-5.8	-0.5	7.7	-1.0	-1.6
MSCI World Low Carbon NTR Index ⁺	15.0	-18.8	21.5	16.5	28.5	-8.9	22.2	1.4

Past performance does not predict future returns.

STRATEGY FUNDAMENTALS³

Number of Holdings	26
Carbon Intensity (CO ₂ t/US\$1m revenues)	Strategy: 23 Index*: 118
Return on Equity (Trailing 1 year)	33
P/E Ratio (1 year forward)	23
Interest Cover (EBIT/interest expense)	18
Weighted Average Market Cap (USD million)	562,563

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.

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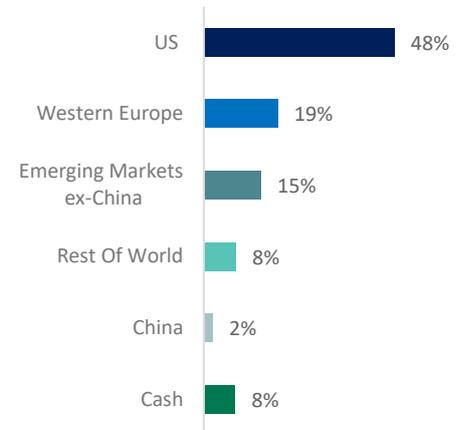
* Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

**Part year return.

TOP 10 HOLDINGS⁴

STOCK	SECTOR	%
Microsoft Corporation	Information Technology	7.6
Alphabet Inc	Internet & eCommerce	7.0
Amazon.com Inc	Internet & eCommerce	5.1
Nestlé SA	Consumer Defensive	4.9
Yum! Brands Inc	Restaurants	4.8
Meta Platforms Inc	Internet & eCommerce	4.7
SAP SE	Information Technology	4.2
Novartis AG	Health Care	4.0
Dollar General Corporation	Mass-Market Retail	4.0
Booking Holdings Inc	Consumer Discretionary	4.0
	TOTAL:	50.3

SECTOR EXPOSURE BY SOURCE OF REVENUE⁴

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE⁴


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.

IMPORTANT INFORMATION

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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.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

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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.

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STOCK STORY: RECKITT

Reckitt commits to a greener future



In 1819, Isaac Reckitt and his brother Thomas established a corn mill business in England, marking the beginning of what was to become Reckitt Benckiser, a UK-headquartered multinational business selling household staples the world has come to trust and love. After humble origins, Reckitt Benckiser now has operations in 68 countries, employs nearly 40,000 people, and generated revenue of approximately £14.5bn (ca. US\$18bn) in 2022. Brands such as Lysol disinfectant spray, Dettol antibacterial, Finish auto dishwasher, Enfamil infant formula and Nurofen analgesic contribute to its performance.

In 2020, Reckitt's portfolio of disinfectant brands became an important weapon in the global fight against the covid-19 pandemic. Reckitt worked responsibly with governments and its employees to ensure increased capacity of sprays, gels, and wipes to help prevent the spread of the novel coronavirus. By the end of 2022, Reckitt's disinfectant brands earned 40% more revenue versus 2019 and Lysol gained 300 bps of global market share. With a growing middle class in emerging markets, aspirations for a more hygienic and healthier way of living should continue to favour structural growth for Lysol and Dettol.

Reckitt's brands are also captive to an ageing population as well as rising demand for trusted and efficacious self-care products. Approximately 18% of Reckitt's revenue is exposed to brands such as Nurofen, Strepsils, and Mucinex, which grew about 10% on average over the last three years.

These trends help explain Reckitt's 7.7% average organic revenue growth from 2019 to 2022, exceeding the usual 4-6% organic revenue growth investors expect from consumer staples companies. The company has reset margins to encourage better growth outcomes through investments in innovation and brand equity as well as growth in new regions. This investment is yielding results, and returns on invested capital are now greater than the company's cost of capital, a key measure in assessing management's effectiveness.

Reckitt has not only benefited from growth in these well-known household brands, but also, it continues to innovate products to improve sustainability characteristics and meet growing consumer demand for environmentally friendly products. The company has prioritised strategic issues such as climate change, setting a net-zero strategy by 2040, and circularity, setting goals to use only recyclable packaging

while reducing the use of virgin plastic. To ensure goals are met, Reckitt developed a Sustainable Innovation Calculator to measure the impact of new product innovations on greenhouse gas emissions, waste streams, and consumer health and wellbeing. Key to its challenge in achieving net zero is that 97% of its carbon footprint lies in its supply chain, requiring strategic collaboration with suppliers and careful planning to achieve their goal on time. Half of the company's emissions come from raw materials sourced for its products and their packaging. Their Sustainable Innovation Calculator guides new product development towards Reckitt's climate goals by recommending novel ingredients, alternative packaging inputs, and lighter materials to reduce the carbon intensity of transporting goods to retail locations – a source of another 41% of carbon emissions.

In addition, the Sustainable Innovation Calculator helps move towards Reckitt's goal of a 50% reduction in virgin plastic by 2030. By reducing virgin plastic in packaging and using high-quality recycled plastic resin, the company makes a positive contribution to reducing plastics in our waste streams. These initiatives can help reduce production costs as well as reinforce Reckitt's brand advantage as some consumers increasingly reach for brands with a purpose.

By creating tools that innovate sustainable outcomes and developing a portfolio of brands that benefit from health and wellness trends, Reckitt Benckiser not only positions itself to achieve a stable earnings growth profile with high-quality returns, it also sets itself up to be a trusted provider of brands we expect consumers to choose for decades to come.

Tracey Wahlberg, Investment Analyst

July 2023

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