MFG ASSET MANAGEMENT

Strategy Update: 31 December 2022

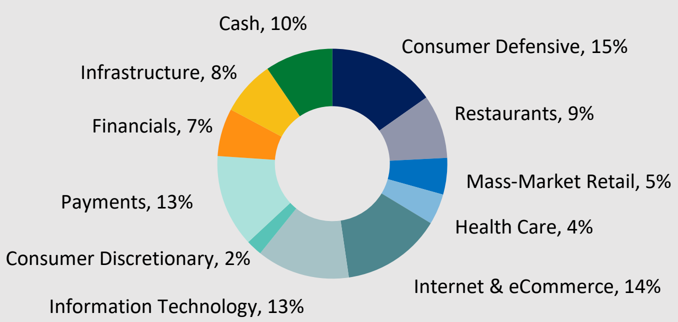
MFG Global Sustainable (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Sustainable Assets [1]
Domenico Giuliano	1 October 2016	USD $267.3 million	USD $267.3 million

Objective	Approach
Capital preservation in adverse markets	High conviction (20-50 securities), high quality focus, low turnover
Attractive absolute risk-adjusted returns through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (typically between 0% - 20%) Combined Risk Ratio cap of 0.8^
Deliver carbon intensity less than 1/3 of MSCI World	Integrated ESG with proprietary, multi-dimensional carbon emissions management. Certain stocks are excluded from the investment universe, including those with material exposures to gambling, alcohol, tobacco, adult entertainment and weapons, amongst other exposures as determined from time to time by MFG/Magellan

Top 10 Holdings[2]	Sector[2]	%
Microsoft Corporation	Information Technology	7.0
Alphabet Inc	Internet & eCommerce	6.7
Walmart Inc	Mass-Market Retail	5.1
Visa Inc	Payments	5.1
MasterCard Inc	Payments	5.1
SAP SE	Information Technology	4.6
Yum! Brands Inc	Restaurants	4.6
Novartis AG	Health Care	4.3
Unilever Plc	Consumer Defensive	4.2
Procter & Gamble	Consumer Defensive	3.9
	TOTAL:	50.6

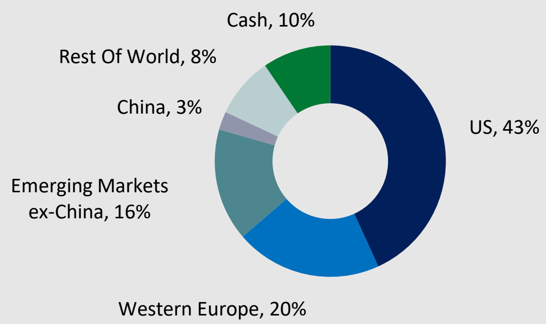
Sector Exposure[2]



Strategy Fundamentals[2]	Strategy
Number of Holdings	25
Carbon Intensity	19.8
Return on Equity	34
P/E Ratio (1 year forward)	22.2
Interest Cover	19
Debt/Equity Ratio	85
Weighted Average Market Cap (USD million)	412,287

3 Year rolling returns[3] (measured monthly)	1 Year	3 Year	Since Inception
Against MSCI World NTR Index+			
No of observations	12	36	40
Average excess return (% p.a.) (Gross)	-4.6	-0.8	-0.5
Average excess return (% p.a.) (Net)	-5.4	-1.7	-1.4
Outperformance consistency (Gross)	0%	36%	43%
Outperformance consistency (Net)	0%	36%	43%

Geographic Exposure[2]



Performance[4]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	6.0	-21.6	0.1	4.8	7.1
Composite (Net)	5.8	-22.2	-0.7	4.0	6.3
MSCI World NTR Index+	9.8	-18.1	4.9	6.1	8.6
Excess (Gross)	-3.8	-3.5	-4.8	-1.3	-1.5
MSCI World Low Carbon NTR Index+	9.8	-18.8	4.8	6.1	8.5

Annual Performance[4] (%)	2022	2021	2020	2019	2018	2017	2016*
Composite (Gross)	-21.6	16.3	10.1	27.2	-1.0	21.4	0.3
Composite (Net)	-22.2	15.3	9.2	26.2	-1.8	20.4	0.1
MSCI World NTR Index+	-18.1	21.8	15.9	27.7	-8.7	22.4	1.9
Excess (Gross)	-3.5	-5.5	-5.8	-0.5	7.7	-1.0	-1.6
MSCI World Low Carbon NTR Index+	-18.8	21.5	16.5	28.5	-8.9	22.2	1.4

[1] Comprised of all Sustainable Strategies.
[2] The data is based on a representative portfolio for the strategy. Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding. Refer to the Important Notice below for further information.
[3] Rolling 3-year returns are calculated and rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with the outperformance consistency indicating the percentage of positive excess returns. Strategy inception is 1 October 2016.
[4] 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.
^ Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index+. Please contact MFGAM should you wish for further details on the calculation.
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* Returns are only for part year.

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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

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.

Market Commentary

The final quarter of 2022 saw a rally in equity markets with the Morgan Stanley Capital International World Index up 9.8% in US dollars. The US dollar strength notable for most of the year fell away in the quarter, as did the dominance of US markets. During the quarter, sector performance was disparate with six of the eleven industry sectors rising double digits in US-dollar terms and two sectors falling. Gains were led by Energy (+17.1%), Industrials (+14.1%) and Materials (+13.1%) while falls occurred in Consumer Discretionary (-4.8%) (a sector dominated by Amazon) and Communication Services (-1.15%). Real estate was next lowest at +3.94%.

In the US, the S&P 500 Index rose 7.1% even as the Federal Reserve raised the cash rate by 125bp to 4.25%-4.5% and maintained it would keep interest rates higher for longer through 2023. Politically, we saw the mid-term elections, which saw the Republicans win back control of the House of Representatives, ending control of Congress by President Joe Biden's Democratic Party.

The Euro Stoxx 50 Index closed out the quarter strongly (+14.3%) despite the European Central Bank also raising interest rates aggressively and still high inflation. The milder European winter, a marked drop in demand by consumers and good levels of energy storage meant the concerns of a deep energy crisis were somewhat allayed.

But perhaps most importantly, things began to take an initially gradual and then accelerated shift for the better in China. While the CSI 300 closed the quarter up just 1.8%, we saw a widespread shift that reduced the economic risks in China, a positive development for investors. After a spate of riots internally, Chinese policy towards its zero-Covid stance began to ease and has since rapidly unwound. As we write, borders have opened a good three months ahead of most people's expectations. We would caution though on being too sanguine as the long-term issues will not be easily or quickly resolved and the distancing of US-China relations is unlikely to turn fully.

Strategy Commentary

Portfolio performance over the quarter divides into two periods, the first period reflecting earnings results and improved market optimism from signs of improving inflation trends. The second period in December reflects a reversion to pessimism following Fed statements regarding their determination to tame inflation and various economic signals pointing to reducing demand.

The largest contributors to performance included the payment networks Mastercard and Visa, reflecting better-than-expected results and ongoing normalisation of travel and entertainment patterns, including the reopening of China. Yum! Brands' performance was supported by strong earnings and an Investor Day that reinforced the company's competitive advantages and sustained long-term growth potential. Proctor & Gamble's strength reflected its economic defensiveness, better-than-expected share trends and steady earnings expectations following its Investor Day. SAP delivered strong cloud growth and cloud margin expansion ahead of expectations, which helped offset some of the ongoing macro headwinds.

The largest detractor from performance was the holding in Amazon, which continues to face some challenges. Its 3Q22 results missed expectations, with a cyclical slowdown and wage/energy inflation impacting growth and margins at its AWS cloud business and International Retail businesses. It also provided guidance for 4Q22 results significantly below expectations, as the company expects higher costs, including energy, to more than offset its ramping productivity efforts in the near term. These headwinds are transitory, and we retain confidence in the growth and competitiveness of Amazon's businesses over the medium term. Alphabet's share price reflected a combination of the cyclical challenge of slowing advertising revenue growth and contracting margins given investments and underwhelming cost control. PayPal's share price dipped following market commentary suggesting the firm was struggling to maintain its market position. In our view, PayPal's share price more than captures the risks facing the company and we remain confident on their longer-term prospects. Meta Platforms had a mixed quarter, initially falling on poor revenue growth and margin challenges, then rebounding following announced reductions in staff and costs. Chipotle's share price strength reversed in December on increasing concerns of transaction weakness in the lower-income segments and weakening same-store sales growth. These are shorter-term issues that are more than countered by the long-term growth provided by the duration of Chipotle's store rollout and operating leverage.

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

Developments in Sustainability

Climate was centre stage during the quarter as the United Nation's annual Climate Change Conference (COP27) was hosted in Egypt. Positively, the conference concluded with the announcement of a 'Loss and Damage Fund', to assist nation's most vulnerable to climate change. The United Nations Biodiversity Conference (COP15) also had positive outcomes. After more than 4 years of negotiations governments (remarkably not the U.S.) the Kunming-Montreal Global Biodiversity Framework was signed. Within the agreement are four long term 2050 goals supported by 23 global 2030 targets; this 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. It wasn't all positive however, with States in the U.S. divided on the regulation of climate change and ESG investing.

During the quarter, we also saw the European Commission announce new rules around packaging and waste. Assuming the draft legislation is passed, companies need to be able to meet these rules by 1 Jan 2030 (for example, minimum percentage of recycled content and "by 2030 all packaging must be recyclable"). This applies to all companies selling products into European markets, for example, Pepsi and Nestle.

Outlook

High levels of inflation appear to be slowing down, especially in the goods part of the measure. However, wages inflation continues to warrant close attention, as it is a strong contributor to elevated levels of inflation in the large services sectors of advanced economies. Central banks have been vocal in their determination to retain their restrictive stances until credible evidence emerges that inflation is being reined in, so while there remains uncertainty on the duration of higher levels of interest rates, there is greater market confidence in the levels at which they peak. This means it is likely the market's repricing of the level of long-term interest rates is mostly done and the levels of the benchmark US 10-year bond appear to be settling into a range around the high 3%. Therefore, over coming quarters we expect the primary cause for movements in stock prices will be from the earnings prospects of individual companies and the path of their cash flows (rather than the discount rate applied to those cash flows).

This uncertainty on the duration of elevated rates and the real possibility that central banks are willing to tip economies into recession, if that is necessary to steadfastly reduce inflation, cause us to retain our cautious portfolio stance with our 9.6% holding in cash and defensive tilt. The start of 2023 sees growing earnings risks in parts of the market for the coming year and we expect share prices to respond to these risks. The coming reporting season may result in stock price volatility that provides opportunities for capital to be redeployed into higher risk-adjusted returns. A significant proportion of Magellan's high-quality universe has attractive medium-term return prospects. The Magellan Global Sustainable portfolio retains the quality and diversity and the longer-term prospects we seek for our companies. These are advantaged companies with excellent business track records, skilled management and disciplined capital management, and this gives us great confidence that the strategy will be able to achieve its return objectives over the medium term.

Stock Story: Walmart

Walmart

Sam Walton opened the first Walmart discount store in 1962, in the small Midwestern town of Rogers, Arkansas (population just 5,700 at the time). From these humble beginnings, Walmart grew into a retailing giant that today serves hundreds of millions of customers each week in its >10,500 stores across 24 countries. In financial year 2022, Walmart generated more than $572 billion in sales of groceries and other merchandise, making it the world’s largest retailer. At year-end 2022, the company employed a total of 2.3 million people, making it the world’s largest private employer as well.

So how were such success and scale achieved? Over the past 60 years Walmart has followed a consistent strategy of providing the lowest possible price (Every Day Low Prices, or EDLP) for a broad assortment of products. Despite its somewhat staid reputation, Walmart has been an early adopter of new technologies and has a history of innovation. It was a pioneer of bar code scanning and analysing sales information, and in the mid-1980s it launched its own satellite network to stay in touch with its growing distribution and store network. Over time, the company has built a wide economic moat derived from scale-based efficiencies and capabilities, a persistent focus on frugality and customer value, and a strong brand that communicates this focus.

One of Walmart's key competitive advantages is its unrivalled scale. As one of the largest retailers in the world, the company has significant purchasing power, which allows it to negotiate lower prices from suppliers. This in turn allows Walmart to offer lower prices to customers, driving higher sales (with volumes more than compensating for lower prices) and further increasing its competitive advantage. Additionally, Walmart's size allows it to invest heavily in technology and infrastructure, which further helps to improve efficiency and reduce costs. Another key element of Walmart's moat is its strong brand recognition and reputation. The company is known for its low prices and wide selection of products, which has helped it to attract and retain a large customer base.

In recent years, Walmart has also focused on expanding its e-commerce capabilities. The company has invested heavily in its online offering and in-store pickup/ delivery, and today, Walmart.com is a major player in the online retail space. This has helped Walmart stay competitive in the face of growing competition from online-only retailers like Amazon.

Despite its success, Walmart has faced criticism over the years. One concern is the company's impact on small businesses and local communities. Some critics argue that Walmart's expansion has led to the closure of small, locally owned stores, hurting the local economy. However, Walmart has also made efforts to be a positive force in the communities where it operates. The company has a long history of philanthropy and has donated billions of dollars to charitable causes around the world.

Walmart has also implemented a number of initiatives to reduce its environmental impact, including reducing greenhouse gas emissions and increasing the use of renewable energy. One example of Walmart's commitment to sustainability is the company's Project Gigaton. Launched in 2017, this initiative aims to reduce one billion metric tons of greenhouse gas emissions from the company's supply chain by 2030. For comparison, that is as much as the US Government’s Inflation Reduction Act aims to cut by the same date. To achieve this goal, Walmart is working with suppliers, NGOs and other partners to identify and implement sustainable practices throughout the supply chain. About 4,500 suppliers accounting for more than 70% of Walmart’s sales have signed up, making it the largest private sector initiative of its kind.

In addition to environmental sustainability, Walmart has focused on social sustainability. The company has a number of initiatives in place to promote diversity and inclusion at the employee and supplier levels, and it takes a leading role working with NGOs to promote ethical recruitment and working practices throughout its supply chain.

Overall, Walmart's business history has been one of steady growth and innovation. The company's competitive advantages, including its vast scale, consistent strategy and strong brand, have allowed it to become one of the biggest retailers in the world. And while Walmart has faced criticism in the past, it has also made significant efforts to be a positive force in the world through initiatives focused on sustainability and social responsibility.