MFG ASSET MANAGEMENT

MFG Global Equity (USD)

Portfolio Managers	Strategy Inception Date	Total Strategy Assets	Total Global Assets[1]
Lead Portfolio Manager: Hamish Douglass Co-Portfolio Manager: Arvid Streimann	1 July 2007	USD $45,878.1 million	USD $60,456.5 million

Objective	Approach
Capital preservation in adverse markets Pre-fee return of 10%p.a. through the economic cycle	High conviction (20-40 securities), high quality focus Dual-sleeve portfolio construction with dynamic allocation to cash (typically between 0% - 20%) Combined Risk Ratio cap of 0.8^

Strategy Fundamentals[2]	Strategy
Number of Holdings	25
Return on Equity	30
P/E Ratio (1 year forward)	28.4
Interest Cover	16
Debt/Equity Ratio	79
Weighted Average Market Cap (USD million)	584,591

Top 10 Holdings[2]	Sector[2]	%
Microsoft Corporation	Information Technology	8.4
Alphabet Inc	Internet & eCommerce	6.7
Facebook Inc	Internet & eCommerce	6.4
Netflix Inc	Internet & eCommerce	5.8
Starbucks Corporation	Restaurants	5.4
Visa Inc	Payments	4.5
Yum! Brands Inc	Restaurants	4.5
SAP SE	Information Technology	4.3
Pepsico Inc	Consumer Defensive	4.2
Intercontinental Exchange Inc	Financials	4.0
	TOTAL:	54.2

3 Year rolling returns (measured monthly)	1 Year	3 Years	5 Years	Since Inception
Against MSCI World NTR Index				
No. of observations	12	36	60	136
Average excess return (% p.a.) (Gross)	1.6	3.6	3.1	6.0
Average excess return (% p.a.) (Net)	0.7	2.7	2.2	5.1
Outperformance consistency (Gross)	78%	94%	97%	99%
Outperformance consistency (Net)	58%	87%	92%	96%

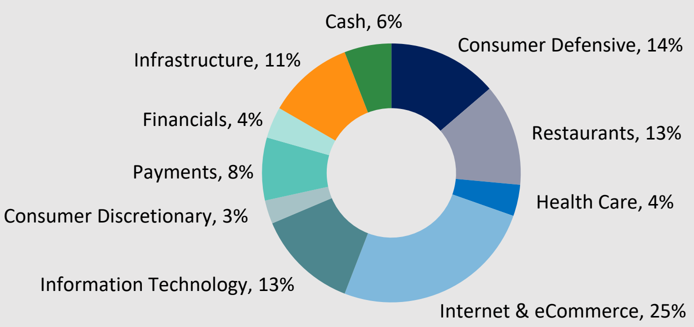
Capital Preservation Measures[3]	3 Years	5 Years	10 Years	Since Inception
Adverse Markets				
No. of observations	9	13	28	49
Outperformance consistency	89%	85%	93%	92%
Average return – Strategy	-3.8%	-3.1%	-1.7%	-3.8%
Average return – Benchmark	-7.3%	-5.7%	-4.9%	-7.9%
Down Market Capture	0.5	0.6	0.4	0.5
Drawdown				
Maximum Drawdown - Strategy	-15.3%	-15.3%	-15.3%	-36.0%
Maximum Drawdown - Index	-21.1%	-21.1%	-21.1%	-54.0%

Performance[3]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	-3.0	9.9	11.6	14.1	14.8	12.2
Composite (Net)	-3.2	9.0	10.7	13.2	13.9	11.3
MSCI World NTR Index	0.0	28.8	13.1	13.7	12.7	6.6
Excess (Gross)	-3.0	-18.9	-1.5	0.4	2.1	5.6
MSCI World Factor Mix A-Series NTR Index	-0.1	26.1	11.9	12.6	12.2	7.4
MSCI Min. Vol. NTR Index	-0.2	13.0	7.8	8.6	10.2	6.6

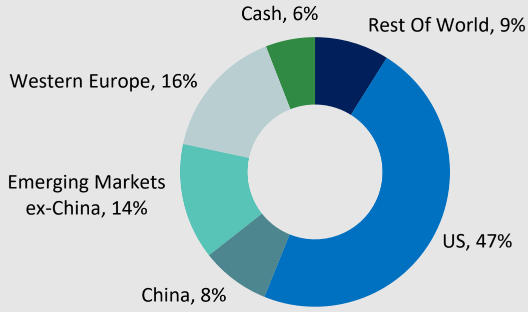
Annual Performance[3] (%)	CYTD	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Composite (Gross)	6.0	11.2	29.7	0.4	25.2	4.7	4.2	6.6	30.8	21.6	11.9
Composite (Net)	5.3	10.3	28.7	-0.4	24.2	3.9	3.4	5.7	29.8	20.7	11.0
MSCI World NTR Index	13.0	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5
Excess (Gross)	-7.0	-4.7	2.0	9.1	2.8	-2.8	5.1	1.7	4.1	5.8	17.4
MSCI World Factor Mix A-Series NTR Index	12.7	10.0	27.7	-6.5	21.5	7.9	1.6	7.3	24.5	13.0	0.7
MSCI Min. Vol. NTR Index	6.9	2.6	23.2	-2.0	17.3	7.5	5.2	11.4	18.6	8.1	7.3

Supplementary Statistical Measures 5	3 Years	5 Years	10 Years	Since Inception
Turnover	23.1%	18.8%	18.8%	13.2%
Beta	0.7	0.7	0.7	0.7
Tracking Error (% p.a.)	8.0%	6.7%	6.1%	6.7%
Standard Deviation – Strategy	13.8%	11.6%	11.0%	13.2%
Information Ratio	-0.2	0.1	0.4	0.8

Sector Exposure[2]



Geographical Exposure[2]



[1] Comprised of all Global 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. The Index is the MSCI World NTR Index. Refer to the Important Notice below for further information.
[3] Rolling 3-year returns are calculated in USD and rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with outperformance consistency indicating the percentage of positive excess returns. Strategy inception is 1 July 2007.
[4] Capital Preservation measures are calculated before fees and in USD. An adverse market is defined as a negative quarter, rolled monthly, for the MSCI World Net TR USD Index, whilst drawdown measures are measured monthly.
[5] Returns are for the Global Equity Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Strategy inception is 1 July 2007. Refer to the GIPS Disclosure section below for further information. 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.
[6] Supplementary Statistical Measures Beta, Tracking Error and Information Ratio are calculated in USD using the MSCI World NTR Index.
^ Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR Index (USD). Please contact MFGAM should you wish for further details on the calculation.

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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 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.

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.

USD is the currency used to calculate performance.

Market Commentary

Global stocks ended the September quarter almost unchanged, to end a run of nine rising quarters in 10. Stocks reached record highs over the first two months of the quarter after the Federal Reserve said it wouldn't overreact to higher inflation readings, US companies delivered better-than-expected earnings reports for the second quarter, and the eurozone and Japanese economies returned to growth. But these gains eroded in September after inflation concerns grew, rising interest rates reduced the value of future profits, Congress failed to lift the US debt ceiling or pass more stimulus, worries emerged about China's economy, energy prices soared in Europe and covid-19 infections rose worldwide. During the quarter, seven of the 11 sectors fell in US-dollar terms. Materials (-5.0%) fell the most on China concerns while financials (+2.1%) rose most as higher interest rates helped bank margins. The Morgan Stanley Capital International World Index fell 0.01% in US dollars.

US stocks edged up as investors baked in expectations that monetary policy would stay loose for a while yet. In a key speech in August, Fed chair Jerome Powell emphasised that rate increases were a long way off and the central bank was conscious of the economic hit stemming from surging delta cases. In September, however, Powell said inflation might last longer than thought and that while the central bank is unlikely to hike rates anytime soon it might announce plans to taper "soon". On the fiscal side, the House of Representatives failed to pass President Joe Biden's US$4.5 trillion agenda as Democrats squabbled though Congress passed a measure that kept the US government funded until December 3. Republicans in the Senate blocked moves to raise the US debt ceiling and thus kept alive the possibility the US could default, insisting Democrats had the numbers to lift the ceiling through the budget-reconciliation process. A boost for stocks was that almost 90% of companies beat expectations for the second quarter, the highest percentage of 'beats' since Refinitiv began keeping such records in 1994. Backing the Fed's view, investors regarded reports that showed consumer prices rising at a pace of about 5.3% in the 12 months to August as most likely driven by temporary supply constraints. The S&P 500 Index added 0.2%.

European stocks fell as German inflation notched a 29-year high when it reached 4.1% in the 12 months to September (while eurozone inflation stood at 3.0% in the 12 months to August), business confidence dropped and a fresh wave of covid-19 infections threatened. In better economic news, a report showed the euro area's economy expanded a revised 2.2% in the June quarter, after shrinking 0.3% in the previous three months. In political news, Germany's left-leaning Social Democrats won the greatest voting share in the general election and looked to be in the stronger position to form a coalition government with party leader Olaf Scholz as chancellor. The Euro Stoxx 50 Index eased 0.4%.

Japan's Nikkei 225 Index added 2.3% after the economy expanded a faster-than-expected 0.5% in the second quarter, after contracting in the previous three months, as Fumio Kishida became prime minister after Yoshihide Suga quit unexpectedly. China's CSI 300 Index slumped 6.8% as property developer Evergrande threatened to default, the delta variant spread, key indicators showed the economy is slowing, producer prices reached their highest since 2008, and regulators homed in on technology companies. Australia's S&P/ASX 200 Accumulation Index rose 1.7% as companies reported healthy earnings for the period to June 30 and an end loomed for the Melbourne and Sydney lockdowns. The MSCI Emerging Markets Index dived 8.8% in US dollars as China's economy slowed and Brazil's central bank raised the key rate to 6.25% from 2% at the start of the year and signalled another increase of 100 basis points in October to slow surging inflation.

Index movements are in local currency.

Strategy Commentary

The strategy recorded a negative return for the quarter. The biggest detractors were the investments in Alibaba Group, Tencent Holdings and Crown Castle International. Alibaba dropped after Chinese authorities cracked down on tech with a focus on antitrust, security and inequality issues. Tencent slumped amid this crackdown that restricts gaming by children and saw the cyber-regulator fine the company for sexually suggestive content while antitrust authorities fined Tencent for unfair practices and ordered the company to end exclusive music-licensing deals. Crown Castle, a US-based owner of telecom towers, fell as rising interest rates undermined stocks that investors consider bond proxies.

The biggest contributors were the investments in Netflix, Alphabet and Microsoft. Netflix gained after its 19% jump in revenue from a year earlier to US$7.3 billion highlighted its success, some of its new titles proved popular, and in anticipation of the release of new seasons of popular shows in the coming months that had been delayed due to covid-19. Alphabet surged after the parent of Google posted a higher-than-expected profit of US$21.7 billion in the June quarter after online advertising rebounded. Microsoft beat expectations when the software giant reported revenue of US$46 billion for the June quarter, an increase of 21% on a year earlier, and CEO Satya Nadella said the performance showed the jump in tech spending since the pandemic began was not a one-off but indicated that businesses were digitising their operations.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Stock Story: Microsoft

For Microsoft, October 4 just gone was to be a notable day. The software company had marked the first Monday of this month as return-to-the-office day for its US staff. But the fourth wave of covid-19 tearing through the US ruined such hopes and the office reopenings across the country were postponed indefinitely.

It's probably one of the few events businesswise that has not gone Microsoft's way during the pandemic. Microsoft, along with many other tech companies, has thrived during the health crisis as government restrictions and self-imposed isolation prompted people to work from home, forced students to sit virtual lessons and compelled just about everyone to hang out more on the internet to amuse themselves or shop.

For Microsoft, working from home boosted demand for hardware and software. Among the most notable was Teams, a collaboration and communication app built into Office that enables in-house meetings via video, instant messaging and conference calls. In roughly the first six months of the pandemic, for instance, the numbers of active users using Teams jumped to more than 115 million a day, which meant that people spent 30 billion minutes each day on Teams, for an average of four hours per user. Another work-from-home boost for Microsoft was increased business demand for cloud services. Remote learning and being stuck at home lifted demand for video-chat resources and adequate hardware, as did time on Skype (up 220% in the early phase of the pandemic) and video games.

This accelerated switch to online helped Microsoft deliver revenue of US$168.1 billion in fiscal 2021, up 18% from 2020, and post an operating profit of US$69.9 billion (and a net income of US$61.3 billion).

But don't give too much credit to the pandemic. The company founded in 1975 enjoys such success largely thanks to its thriving business-oriented divisions, which is ironic for a household-name company commonly known for its consumer products, from Windows to Xbox.

One business-focused arm is the Productivity division, which generated 35% of Microsoft's operating profits in fiscal 2021, as its revenue growth accelerated to 16%. The driver here is Microsoft Office, which includes Excel, Outlook, PowerPoint, Word and now Teams, with a 90% global market share in office productivity software. These and Microsoft's other software are best-in-class products protected by the high cost and friction of switching to competing products.

The other business-focused arm is the newer Intelligent Cloud division that includes Microsoft's thriving Azure public-cloud arm, which pulled in 37% of operating profits in fiscal 2021 after a 24% increase in revenue that helped the unit tighten its top-two position in cloud. The third division, the More Personal Computing arm, generated the remainder of fiscal 2021's profits, recording a 12% jump in revenue.

But it's not just products driving Microsoft's recent success. The other ingredient is Satya Nadella, who joined Microsoft in 1992, and was made the company's third CEO in 2014 after Steve Ballmer (2000-2014) and Bill Gates (1975-2000) who resigned as chairman when Nadella took over. At the time, the software giant was criticised for having missed out on the mobile revolution and Microsoft's share price had idled for more than a decade.

Under Nadella, Microsoft has transitioned to selling more subscription and consumption services often tied to multi-year contracts, rather than one-off, upfront product licences for software. Another noticeable feature of the Nadella era has been some of the strategic takeovers. Three among the most notable swoops were on LinkedIn in 2016 for US$26 billion, GitHub, an online code-sharing platform, for US$7.8 billion in 2018 and Nuance Communications this year for US$19.7 billion to help expand the industry cloud opportunity. Other focuses in the Nadella era have been spending discipline, ensuring privacy and cybersecurity, and exploring the opportunities presented by artificial intelligence and the internet of things.

But even in the years of Ballmer as CEO, Microsoft still made substantial revenues from its business products. Such holds on business are what make Microsoft one of the world's most valuable companies (at times, the world's most valuable) and a compelling long-term investment.

To be sure, the pandemic boost is temporary. Zoom is a mighty competitor to Teams. Laptop and other device sales are being hampered by the global chip shortage and other disruptions to supply networks. The growth rate of the cloud and software businesses is likely to slow over time. Big Tech is facing regulatory threats from many angles, though Microsoft has so far avoided the worst of the scrutiny.

While the cloud and business software markets stay strong and Nadella's oversight remains discerning, Microsoft is well positioned even for a more-normal world when Microsoft and other companies have their staff back in the office.

Sources: Company filings and website.