MFG GLOBAL PLUS STRATEGY

Hamish Douglass,
Chairman and Chief Investment Officer

Arvid Streimann
Head of Macro and Portfolio Manager

The Global Plus Strategy is a core holding that seeks to invest in the world's best 20 to 40 global stocks. The strategy aims to deliver 10% p.a. over the economic cycle while reducing the risk of permanent capital loss.

PERFORMANCE

Global stocks soared to record highs in the 12 months to June 2021 after government and central bank stimulus helped economies recover from the pandemic, pharmaceutical companies hastened economic reopenings when they developed vaccines against the virus that causes the illness known as covid-19, the new US administration of President Joe Biden used the unexpected control of Capitol Hill it gained in January after surprise Senate election victories in Georgia to implement more fiscal stimulus, investors decided the Democrats' narrow control of Congress would prevent anti-business measures becoming law, and tech stocks reported earnings that showed how much they have benefited from the shift to online.

The portfolio recorded a gross return of 22.3% for the 12 months in US dollars. The stocks that performed best over the 12 months included the investments in Alphabet (+4.2% of the total portfolio return), Facebook (+2.8%) and Microsoft (+2.4%). Alphabet rose after its Google subsidiary's advertising revenue showed a better-than-expected rebound from the coronavirus-triggered slump and the US election outcome and a court ruling in June appeared to reduce the risk of a crackdown on Big Tech that would ensnare Google, which is already under anti-trust scrutiny by the US Department of Justice. Facebook climbed enough to record a market cap in excess of US$1 trillion after earnings beat expectations, the social-media company said its main site has a record 2.9 billion 'active' monthly users, and a US judge in June unexpectedly dismissed two complaints against the social-media giant from the US regulator because the judge said the Federal Trade Commission failed to prove the company was a monopoly. Microsoft surged to become the first company after Apple to reach a market cap of US$2 trillion after its cloud business helped the software giant beat earnings and revenue forecasts and then held up relatively well when covid-19 hit because it was judged a stock that would benefit from greater online activity.

No stock held in the portfolio over the 12 months detracted from performance though Reckitt (0.0%) slid in local currency on a view that the easing of the pandemic would reduce demand for the sanitary products of the UK-based, multinational consumer-packaged-goods company.

OUTLOOK

The global economic upswing appears set to last a couple of years, driven by a record level of monetary and fiscal stimulus as well as a vaccine-driven reopening. However, there are two key risks.

The first is that the supply side of the economy takes much longer to recover than the demand side, leading to inflationary pressures that are larger or more persistent than expected. While we and most central banks expect inflationary pressures to be transitory, a surprise here may force central banks to tighten policy faster than expected, perhaps materially so. The second is a covid-19 mutation that requires replacement vaccines to be developed and distributed, a process that could take three to six months.

Covid-19 has not changed our longer-term economic outlook. The global economy remains structurally low growth and low inflation, resulting in structurally low interest rates. What has changed is a steep rise in government debt and potentially a greater acceptance of central-bank-financed government deficits.

The equity market outlook for the next 18 months is more challenging than usual to predict. The cyclical economic upswing and policy accommodation should support equity returns, but the two economic risks mentioned earlier could trigger a 20% or more decline in equity prices. Another potential trigger is a correction in overvalued pockets of the market such as 'meme' stocks, as this could spread to the broader equity market.

We have reduced the cash holding in the strategy from 15% to 6% in the past year. This reduction has been driven by the less-uncertain market outlook, particularly after the announcement of positive vaccine results in November.

PORTFOLIO POSITIONING[1]

Top-10 holdings at 30 June 2021

Security	Weight (%)
Microsoft Corporation	**7.8**
Alphabet Inc	**6.8**
Facebook Inc	**6.4**
Starbucks Corporation	**5.3**
Netflix Inc	**4.8**
Alibaba Group Holding Ltd	**4.8**
Visa Inc	**4.6**
Tencent Holdings Ltd	**4.5**
SAP SE	**4.3**
Yum! Brands Inc	**4.1**
Total	**53.4**

We believe our portfolio of 23 high-quality businesses remains well positioned to offer downside protection and to generate satisfactory returns over the medium to long term.

With these objectives in mind, the portfolio has been constructed to account for the cyclical economic recovery underway while considering key nearer-term risks associated with higher-than-expected inflation, an escape mutation and pockets of investor risk-seeking. Portfolio positioning also reflects the longer-term challenges to economies presented by lower structural growth and a likely rise in interest rates over time.

Central to our portfolio construction, now and always, is a gravitation towards high-quality businesses available at attractive prices. It is this approach – a considered and balanced selection of exceptional businesses possessing a competitive moat plus deliberate risk management – that provides conviction in the portfolio's ability to satisfy its dual objectives over time.

The past 12 to 18 months provided investors with another visceral reminder of the importance of a long-term orientation and of business quality. By virtue of their competitive advantages, their importance to customers and their robust fiscal positions, high-quality businesses proved resilient through the depths of events last year. As importantly, these businesses have emerged from the crisis in a more advantaged position. Given their strength and capabilities, these businesses were able to innovate and adapt while reinvesting for growth through the crisis. Many observed an acceleration in the adoption of their products and services, particularly those with any form of digital exposure. Some have business units that stand to benefit from further lifting of mobility restrictions. High-quality businesses can weather the inevitable storms, allowing them to capitalise during calmer tides.

Embedded within our definition of business quality is an insistence that a company be on the winning side of disruptive shifts. This exposes the portfolio to businesses that can achieve growth that is less dependent on the underlying strength of the economy. The corollary is that the fundamental results of these businesses, though more attractive through the cycle, can lag companies that benefit from having a purer economic exposure during a strong recovery but whose performance will be challenged in its absence. Our approach remains to invest in businesses that we consider will have a high likelihood of success for decades to come. As always, we evaluate prospective returns in relation to the type and degree of risk we are taking.

The core investment themes in our portfolio at 30 June 2021 were:

- An investment across a range of highly resilient businesses that represented 36% of the portfolio. These businesses primarily offer ballast and downside protection to the portfolio. The fundamental performance of these companies is largely immune to the economic cycle, given their products and services are either essential or in increasing demand. The performance should also be only modestly affected by measures that would likely be required to contain further covid-19 outbreaks. We have been mindful with respect to the form and degree of inflation and interest-rate exposure across these holdings. These investments offer attractive risk-adjusted returns under a wide range of potential economic outcomes. They comprise:
  - Consumer staples at 14% of the portfolio (Nestlé, PepsiCo, Procter & Gamble and Reckitt).
  - Regulated US utilities and communications infrastructure at 11% of the portfolio (Crown Castle International, Eversource Energy, WEC Energy and Xcel Energy).
  - Franchise-model restaurants at 7% of the portfolio (McDonald's and Yum! Brands).
  - A diversified healthcare business, Novartis, at 4% of the portfolio.
- The Chinese consumer (technology-platform companies Alibaba Group and Tencent and consumer companies LVMH and Starbucks) that comprised 16% of the portfolio. The Chinese middle class is forecast to double in size over the next five to 10 years with the high-end cohort growing even faster. Alibaba and Tencent are structural winners in the Chinese economy, owning the leading gaming, social media and e-commerce platforms respectively. They are also the two leading cloud-computing and digital-payment businesses in China. The Western consumer businesses have strong brands and significant leverage to the growth in China's middle to upper class over time.
- Advertising technology-platform companies (Alphabet, the owner of Google, and Facebook) that represented 13% of the portfolio. These companies benefit from the shift in marketing expenditure from traditional media properties to digital platforms.
- Enterprise-software companies (Microsoft and SAP) that comprised 12% of the portfolio. These companies are deeply integrated within the operations of their business customers, which lowers the risk these customers will switch software vendors. They are benefiting from the transformational growth in cloud computing.
- Companies benefiting from technology-enabled growth (Netflix and Intercontinental Exchange) that accounted for 9% of the portfolio. Netflix is leveraged to the broad shift from pay TV to streaming video on demand, while Intercontinental Exchange's efforts to digitise the US residential mortgage process complement its resilient exchange business.

- Payment-platform companies (Mastercard and Visa) that represented 8% of the portfolio. These are classic 'network-effect' business models that connect millions of merchants with billions of cardholders. These companies provide the 'rails' upon which global electronic payment systems run.
- A 6% holding in cash (held in US dollars).[1]

Hamish Douglass **Arvid Streimann**

USD Performance as at 30 June 2021[2]

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
MFG Global Plus Composite (Gross)	22.3	15.3	16.1	12.1	-	12.7
MFG Global Plus Composite (Net)	21.3	14.4	15.2	11.2	-	11.8
10% p.a. Objective Excess (Gross)	12.3	5.3	6.1	2.1	-	2.7

Rolling 3-year returns (measured monthly)[3]

Against MSCI World Index	1 year	3 years	5 years	Since inception
No. of observations	12	36	60	61
Average excess return (% p.a.) (Gross)	3.2	3.9	3.2	3.1
Outperformance consistency (Gross)	100%	100%	100%	100%
Average excess return (% p.a.) (Net)	2.3	3.0	2.3	2.2
Outperformance consistency (Net)	83%	94%	97%	95%

Capital Preservation Measures[4]

Adverse Markets	Last 36 months	Last 60 months	Since inception
No. of observations	8	12	22
Outperformance consistency (Gross)	100%	92%	95%
Down Market Capture Ratio	0.5	0.5	0.4

1 Holdings based on a representative portfolio for the strategy. Portfolio positioning may not sum to 100% due to rounding.

2 Returns are for the Global Plus Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request. Inception date is 1 January 2013. Refer to the GIPS Disclosure section below for further information.

3 Rolling 3-year returns are calculated based on the Global Plus Composite in USD, 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. Inception date is 1 January 2013 (inclusive). 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.

4 Capital preservation measures are calculated based on the Global Plus Composite before fees in USD. An Adverse Market is defined as a negative 3-month return for the MSCI World NTR Index (USD), rolled monthly. The Down Market Capture Ratio shows if a strategy has outperformed a benchmark during periods of market weakness, and if so, by how much. Inception date is 1 January 2013 (inclusive).

IMPORTANT INFORMATION

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited trading as MFG Asset Management ('MFG Asset Management') and an investment fund or investment strategy managed by MFG Asset Management ('Strategy'). This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice. In making an investment decision, you must rely on your own examination of any offering documents relating to the Strategy.

The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. Past performance is not necessarily indicative of future results and no person guarantees the future performance of the Strategy, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of MFG Asset Management. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of an MFG Asset Management financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Strategy. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses.

No representation or warranty is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. This material may include data, research and other information from third party sources. MFG Asset Management makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. MFG Asset Management will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages.

No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorized or in which the person making such offer or solicitation is not qualified to do so. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of MFG Asset Management. Further information regarding any benchmark referred to herein can be found at www.mfgam.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners.

The MSCI World Index (Net) is a free-float adjusted market capitalization weighted index that is designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) claims compliance with the Global Investment Performance Standards (GIPS ®).

For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management, excluding 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 Plus composite is a concentrated global equity strategy investing in high quality companies (typically 20-40 stocks). High quality companies are those companies that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. The investment objectives of the Global Plus strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The minimum market capitalisation for a stock to be included is US$25 billion. The composite was created in July 2013.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions are available upon request by emailing client.reporting@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. The representative portfolio changed in July 2017 due to the closure of the former representative portfolio. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

USD is the currency used to calculate performance.