YEAR INREVIEW 2023

MFG CORE INTERNATIONAL FUND (MANAGED FUND)

TICKER: MCSG | APIR: MGE351AU | ARSN: 645 515 082

Elisa Di Marco
Portfolio Manager

A diversified global equities portfolio of 70-90 of the world's best companies – those with sustainable competitive advantages enabling them to continually earn returns on capital in excess of their cost of capital.

Dear Investor,

As we end another financial year, we are presented with the opportunity to reflect. We believe FY2023 was a reminder of why investing in high-quality companies is important. Over the past 12 months the strategy returned 24.3%, pleasingly beating the index by over 1.9% net of fees.

As always, how one defines quality is key. At Magellan, we consider that a quality company is one that possesses a unique set of attributes that should enable it to generate sustainable excess returns for years to come. Businesses with attributes such as a favourable industry structure, strong pricing power and high barriers to entry have the potential to deliver meaningful shareholder returns through the cycle. We look for favourable trends in business quality alongside structural tailwinds or defensive characteristics. Some of the qualitative factors we consider are outlined below, with examples of how they apply to companies in the portfolio:

- **Industry structure** – A favourable industry structure is likely to lead to superior economics, especially when an industry is experiencing structural growth at a rate faster than the broader economy. We believe that ASML, as the leading manufacturer of semiconductor lithography equipment with a >80% market share, benefits from a favourable industry structure. ASML benefits not only from its industry position (with few, if any, viable competitors) but also from the acceleration in demand for semiconductors, powered by trends in fast-growing areas such as Artificial Intelligence (AI).
- **Pricing power** – Over the past two years, as cost inflation headwinds have increased, pricing power – or a company's ability to protect returns by repricing products or services – has become paramount. In our detailed assessment of pricing power, we consider a company's exposure to commodity and transport costs, its bargaining power relative to retailers or distributors, and the loyalty of its customer base. McDonald's, Chipotle and Mondelez are fitting examples of portfolio companies with pricing power. These companies can offset cost inflation with pricing initiatives (and in the case of McDonald's, a favourable franchised business model) to protect profit margins and shareholder value.
- **Barriers to entry** – Barriers to entry can take several forms. They could be the cost to build new infrastructure, a technology advantage or the time to build a brand. High barriers to entry are core quality attributes of Salesforce.com, Intuitive Surgical and SAP. These companies continue to gain market share and have pricing power because it is harder for competitors to get a foothold in the industry. For example, Intuitive Surgical is the leading player in robotic surgery. The barriers to entry are elevated given their leading technology and high switching costs. (There are costs and risks to changing providers including the need to train staff on new equipment, as well as buying new equipment.)
- **Scale** – Relative scale can imbue a company with cost advantages in manufacturing, distribution, marketing, and R&D. During periods of social or economic disruption, such as China's zero-Covid policy, large companies like L'Oréal and LVMH benefited from unrivalled supply chain muscle and an ability to continue spending on marketing. More recently, L'Oréal's acquisition of luxury body care brand Aesop highlights its ability to deploy capital strategically and opportunistically when smaller competitors succumb to economic pressures.

But why did quality matter this year in particular? As we've mentioned, quality companies give us greater certainty in the sustainability of future cash flows. In a world of uncertainty, which we have been in in the years post the pandemic (geopolitics, inflation, interest rates and risk premiums), greater certainty in cash flows is valuable to shareholders. Quality companies tend to reinvest through the cycle, often leading to a stronger company on a relative basis when the cycle turns. Our view on quality is a fundamental input into the portfolio construction process, with what we consider to be higher-quality companies upweighted. Given quality companies improve through cycles, we believe that should major economies enter a recession in the coming 12 months the portfolio is well positioned.

In summary, there is a finite number of outstanding companies in the world that can sustainably generate value for shareholders through the cycle. Identifying these companies is not something investors can just download from Google or get from artificial intelligence. It requires forward-looking active research and industry knowledge to make considered assessments. While many of these companies are well-known 'blue chip' investments, we must be prudent in monitoring these companies as capitalism's creative and destructive forces are forever reshaping industries by growing new businesses and destroying dominant firms.

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.

PORTFOLIO COMMENTARY

The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in Amazon.com, Apple Inc and Microsoft. Amazon's sentiment improved significantly during 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. Apple delivered better-than-expected performance during the quarter, driven by continued iPhone share gains in emerging markets. Microsoft was a beneficiary of the rapid developments in generative AI. Microsoft's early leadership has boosted sentiment in the market opportunity. These developments lend support to our thesis of new market opportunities beyond traditional IT spend and Microsoft's unique ability to capture them.

The biggest detractors in the quarter include Diageo, Nike Inc and Estée Lauder. Diageo was negatively impacted by the deterioration in investor sentiment as US spirits performance normalised from exuberant pandemic-era levels. Nike underperformed given the increasing risk of a US consumer slowdown, lingering concerns about excess inventory in the wholesale channel and more cautious outlook on the Chinese consumer recovery post reopening. Estée Lauder faced headwinds during the quarter with retailer destocking and a slower-than-anticipated recovery in the important China travel retail channel.

The portfolio recorded a positive return for the prior 12 months in Australian dollars. The biggest contributors included the investments in Amazon.com, Apple Inc and ASML Holdings. Amazon's performance was bifurcated over the past 12 months. In the first half of the period, Amazon was impacted by cost headwinds due to inflation (wages, freight) and logistic inefficiencies as demand for online retail normalized post-COVID. Growth in AWS was also impacted by lower demand as its customers braced for a more austere macroeconomic environment. This was more than offset by the second half of the period, where Amazon performed strongly as it demonstrated good cost control in its Retail business, and investors began to appreciate the future benefits of AI and Amazon's positive positioning in this space. Apple's strong performance was driven by several factors including (1) a continued shift in the business towards the higher margin Services segment, (2) continued iPhone share gains in emerging markets and (3) news of further internalisation of manufacturing of components of the iPhone, increasing gross margins. ASML benefited from strong lithography tool shipments and resilience in ASML's order book in the face of broader industry headwinds. This was further supported by favourable sentiment for AI-driven demand.

The biggest detractors over the year include Meta Platforms, Alibaba and Estée Lauder. Meta Platforms had a weak start to the year, as deteriorating macro pressures and pullback in advertiser demand exacerbated existing challenges from Apple's iOS 14 changes, user time share shift to TikTok and a rapidly growing cost base. Alibaba was impacted by a weaker-than-expected recovery in China post Covid reopening and ongoing competitive pressures in e-commerce. Estée Lauder's full year was negatively impacted by the most recent quarter with retailer destocking and a slower-than-anticipated recovery in the important China travel retail channel weighing on the stock.

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

PORTFOLIO POSITIONING

The strategy is based on Magellan's forward-looking, researched definition of 'quality'. This definition is actively monitored by the investment team, and an active input in the rules-based portfolio construction process. The portfolio is determined by selecting the top 70-90 companies, while allowing for diversification, from our Investment Committee approved quality universe. Changes to portfolio holdings are driven by additions/deletions to our approved list of 'quality' companies and changes in our view of quality. When our view on quality strengthens, the company is ranked higher and more likely to be included in the portfolio. When our view on quality deteriorates, the company is ranked lower, and is more likely to be downweighed or excluded from the portfolio.

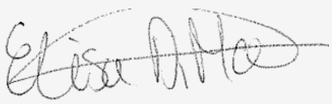
Over the past 12 months, Tractor Supply and Zoetis were new additions to the investment universe, and were included in the portfolio at the respective quarterly rebalance based on their ranked quality. Kone, Schindler and Stryker were added into the portfolio following quality score reviews, which led to a higher ranking within the approved universe. Over the past 12 months, PayPal and Alibaba were removed from the portfolio following a quality score review, which led to a lower quality score and hence a lower ranking within the approved universe. Vail Resorts, Analog Devices and Medtronic, were removed from the portfolio, on relative scoring grounds, as new companies entered our quality universe.

OUTLOOK

We are at the point in the cycle where inflation is slowing, cash interest rate settings by central banks are rising and economic growth is looking increasingly at risk of recession. We believe inflation will continue to be the core focus of central banks and we will need to continue to see lower inflation data points over 2023 if central bank rate rises are to pause. Recessionary conditions in the coming months continue to be our base case, though we believe in the US this is likely to be mild with potentially slight positive nominal growth (barring a financial shock).

We have confidence should major economies enter a recession in the coming 12 months that the portfolio is well positioned. This is largely driven by our definition of quality - that is identifying companies with unique attributes that enable the business to generate attractive and sustainable returns. This definition is valuable in the current market environment for several reasons: 1) quality companies tend to reinvest through the cycle, often leading to a stronger company on a relative basis when the cycle turns; 2) when defining quality, we look for favourable trends in business quality, alongside structural tailwinds, or defensive characteristics and 3) where uncertainty is present, greater certainty in cashflows in valuable to shareholders.

Yours sincerely,



Elisa Di Marco

July 2023

MFG Core International Fund (Managed Fund)

TICKER: MCSG | APIR: MGE351AU | ARSN:645 515 082

AS AT 30 JUNE 2023

Fund Features

- A portfolio of high-quality securities that is actively constructed and rebalanced quarterly
- Integrated quality framework to identify companies with sustained competitive advantages, and with a forward-looking view to the evolution in technology, consumer behaviour and other fundamental impacts on businesses
- Rebalanced quarterly, and continuously monitored, to ensure relevant and updated views on quality, value and risk
- Investors can buy or sell units on the Cboe securities exchange like any other listed security or apply and redeem directly with the Responsible Entity

Fund Facts

Portfolio Manager	Elisa Di Marco	
Structure	Global Equity Fund, A$ Unhedged	
Objective	Achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified portfolio of high quality companies	
Investment Risks	All investments carry risk. While it is not possible to identify every risk relevant to an investment in the fund, we have provided details of risks in the Product Disclosure Statement. You can view the PDS for the fund at www.magellancoreseries.com.au.	
Inception Date[1]	11 December 2020	
Management Fee[2]	0.51% per annum	
Buy/Sell Spread[3]	0.10%/0.10%	
Minimum Investment[3]	AUD$10,000	
Fund Size/NAV Price[4]	AUD $25.0 million / $4.1657 per unit	
Distribution Frequency	Semi-annually	
Cboe Ticker	MCSG	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSG AU Equity) **Refinitiv (MCSG.CHA)** **IRESS (MCSG.CXA)**	MCSGAUIV MCSGAUDINAV=SOLA MCSGAUDINAV	MCSGAUIV Index MCSGAUiv.P MCSG-AUINAV.NGIF

Visit www.magellancoreseries.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms

[1] The inception date represents the first date the fund was offered to retail investors;
[2] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST;
[3] Only applicable to investors who apply for units directly with the Responsible Entity.
[4] NAV price is cum distribution and therefore includes the distribution of $0.0757 per unit payable on 21 July 2023.

Performance Chart growth of AUD $10,000*

Past performance is not a reliable indicator of future performance.

Performance*

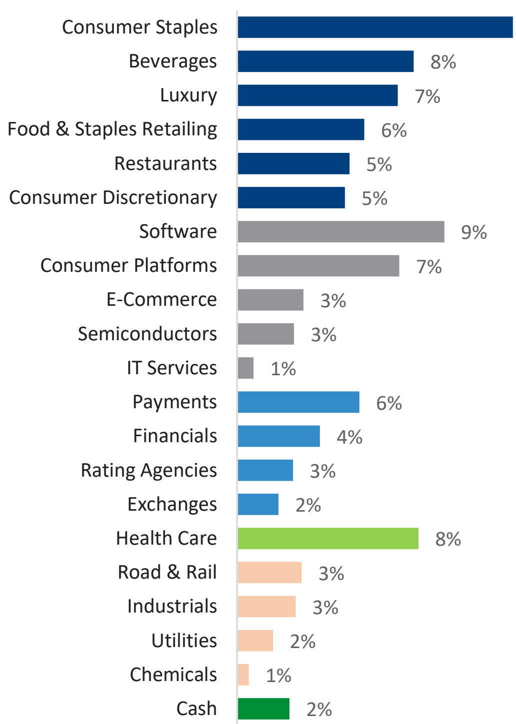
	Fund (%)	Index (%)**	Excess (%)
1 Month	2.5	3.1	-0.6
3 Months	7.0	7.5	-0.5
6 Months	18.9	17.2	1.7
1 Year	24.3	22.4	1.9
2 Years (p.a.)	6.3	7.0	-0.7
Since Inception (p.a.)	10.6	11.7	-1.1

Past performance is not a reliable indicator of future performance.

Top 10 Positions

Company	Sector#	%
Apple Inc	Consumer Platforms	3.09
Amazon.com Inc	E-Commerce	3.06
Home Depot Inc	Food & Staples Retailing	3.05
Procter & Gamble	Consumer Staples	2.99
Hermes International	Luxury	2.99
McDonald's Corporation	Restaurants	2.98
LVMH Moet Hennessy Louis Vuitton	Luxury	2.98
Nestlé SA	Consumer Staples	2.95
PepsiCo Inc	Beverages	2.93
Coca-Cola Company	Beverages	2.88
	TOTAL:	29.89

Portfolio Snapshot#



* Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 11 December 2020. Returns denoted in AUD.
** Benchmark is the MSCI World NTR Index (AUD). All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in www.magellancoreseries.com.au/benchmark-information/.
\# Sectors are internally defined. Exposures may not add to 100% due to rounding.

STOCK STORY: AMAZON

The secret sauce of an ever-evolving innovation machines

Amazon's almost 30-year journey has been one of constant evolution, driven by innovation, and guided by the long-term vision of its founder, Jeff Bezos. The business developed in its early years with an initial focus on selling books before eventually expanding into other product categories, including music, electronics and beyond. Over time it has shifted from a goods retailer to services platform as it gave external parties access to its marketplace (3P sellers account for ~55% of all unit sales) and other operational capabilities (such as Fulfilled by Amazon or Buy With Prime). The company has a long track record of creating disruptive products – as it did with the Kindle and Alexa – and entirely new markets – as it has done with AWS and cloud computing. So, what's the secret sauce? At the heart of this ever-evolving innovation machine lie three key elements: a distinct and well-defined corporate culture, a decentralised and nimble operational structure, and a willingness to invest and remain focused on the long term.

Amazon has a distinct corporate culture enshrined in 16 leadership principles, which provide a framework for decision-making, problem-solving and collaboration across the organisation. These principles are deeply ingrained in the company's DNA and influence how employees approach their work. While all are important, we would highlight just two that are particularly pertinent to innovation. Principle #3, "Invent and Simplify", encourages employees to continuously seek inventive solutions and challenge the status quo. It instils a mindset of constant improvement and the pursuit of ground-breaking ideas that can reshape industries. Principle #8, "Think Big", empowers employees to envision ambitious, audacious goals and imagine possibilities beyond what may seem achievable. It also expresses Amazon's appetite for taking bold risks and making substantial investments in emerging technologies and ventures.

Amazon's corporate workforce largely consists of small, autonomous "two-pizza" teams (named because they should be small enough to be fed with as much) that utilise a common set of standardised, shared functions or "services". Teams comprise a mixture of multi-disciplinary roles and are empowered to make decisions quickly, iterate on ideas, and drive innovation in their respective areas. By keeping teams small, Amazon minimises bureaucracy and encourages a sense of ownership and agility. The structure fosters a culture of experimentation and learning from failures, as teams can quickly iterate and adapt their strategies based on real-time feedback. Importantly, it also enables rapid scaling into new areas of focus or opportunity without introducing unnecessary complexity and dependencies.

Amazon has consistently demonstrated its willingness to forgo immediate profitability in favour of maximising future opportunities. In 2011, in response to a shareholder question regarding Amazon's willingness to take bold bets, Bezos commented, "We are willing to invent. We are willing to think long term. We start with the customer and work backwards. And, very importantly, we are willing to be misunderstood for long periods of time". This quote reflects Amazon's commitment to pursuing its long-term vision, and its sentiment is often conveyed by other leaders within the company, including the current CEO, Andy Jassy. The company famously took >8 years to realise its first annual profit, prioritizing the development of its platform and improvement of the customer experience. Facing capacity constraints in 2014, Amazon decided to embark on the build-out of its own logistics network. While this weighed on profitability in the short term, it established a strong competitive advantage, and by 2021 Amazon was shipping more parcels across the USA than FedEx. Similarly, Amazon's cloud computing business, AWS, was initially met with scepticism, but the company persisted in investing heavily in its development and expansion, and today the division generates over $80bn revenue per annum. Looking forward, we expect the company will continue to invest in big bets across healthcare, advertising, media and logistics in pursuit of its next growth pillar.

In summary, Amazon's success lies in its constant evolution and drive to innovate. Its distinct corporate culture promotes entrepreneurship and challenges the status quo. A decentralised operational structure empowers agile teams and enables rapid scaling without adding complexity, and Amazon's capacity to invest for the long term, exemplified by the buildout of its fulfilment and logistics infrastructure and AWS, is a key competitive advantage versus more myopic competitors. With a commitment to thinking long term and willingness to be misunderstood, we expect Amazon will continue to thrive.

Jack McManus, Investment Analyst
June 2023

IMPORTANT INFORMATION