

Magellan Sustainable Fund (Managed Fund)

ARSN: 645 516 187

Ticker: MSUF

APIR: MGE4669AU

Fund Features

- A high conviction (20-50 securities), high quality focus, low turnover portfolio.
- Designed for capital preservation in adverse markets, whilst delivering attractive absolute risk-adjusted returns through the economic cycle.
- Portfolio construction incorporates detailed macroeconomic analyses to capture opportunities whilst mitigating risks, alongside the application of both fixed and dynamic risk limits.
- Investors can buy or sell units on Cboe like any other listed security or apply and redeem directly with the Responsible Entity.

Fund Facts

Portfolio Manager	Domenico Giuliano	
Structure	Global Equity Fund, A\$ Unhedged	
Inception Date	11 December 2020	
Management Fee ¹	1.35% per annum	
Buy/Sell Spread ^{1,2}	0.07%/0.07%	
Minimum Investment Size ²	AUD\$10,000	
Fund Size / NAV Price	AUD \$7.3 million / \$2.3591 per unit	
Distribution Frequency	Semi-annually	
Performance Fee ¹	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (AUD)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.	
iNAV tickers	Solactive iNAV	ICE iNAV
Bloomberg (MSUF AU Equity)	MSUFAIV	MSUFAUIV Index
Refinitive (MSUF.CHA)	MSUFAUDINAV=SOLA	MSUFAUIV.P
IRESS (MSUF.CXA)	MSUFAUDINAV	MSUF-AUINAV.NGIF
Carbon Intensity ³ (CO ₂ t/US\$1m revenue)	Fund:20	Index**:145

¹All fees are inclusive of the net effect of GST; ²Only applicable to investors who apply for units directly with the Responsible Entity. ³As at 30 September 2022. Carbon intensity data available on a quarterly basis. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

Fund Performance*

	Fund (%)	Index (%) ⁺	Excess (%)
1 Month	-2.5	-3.3	0.8
3 Months	0.9	0.3	0.6
6 Months	-7.0	-8.2	1.2
1 Year	-13.2	-9.7	-3.5
Since Inception (p.a.)	0.0	4.8	-4.8

Performance Chart growth of AUD \$10,000*



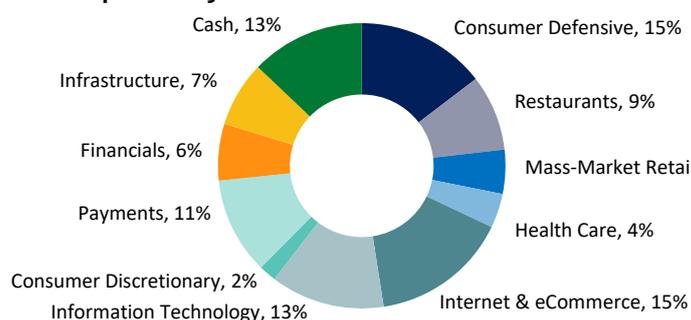
Environmental, Social, Governance and Low Carbon

- Integrated proprietary ESG risk assessment process and low carbon framework.
- Companies with material exposures to businesses considered detrimental to society or environment are removed from the universe, including exposures to tobacco, alcohol, gambling, adult entertainment and weapons, amongst other exposures as determined from time to time by Magellan.
- Companies are reviewed for the materiality of their exposures to environmental, social and governance issues, with assessments incorporated into our perspectives on business risks.
- We overlay our proprietary Low Carbon framework to deliver a portfolio with much lower carbon risk exposure than world markets.

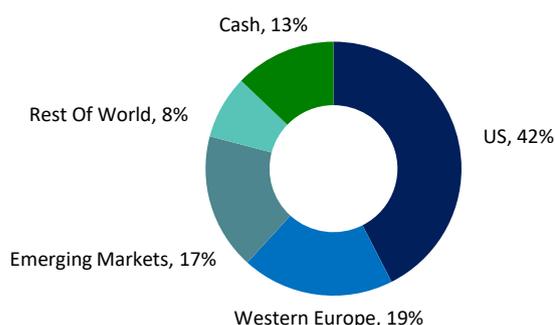
Top 10 Holdings

	Sector [#]	%
Microsoft Corporation	Information Technology	7.2
Alphabet Inc	Internet & eCommerce	6.8
Amazon.com Inc	Internet & eCommerce	5.3
Walmart Inc	Mass-Market Retail	5.0
Visa Inc	Payments	4.7
MasterCard Inc	Payments	4.5
Yum! Brands Inc	Restaurants	4.0
SAP SE	Information Technology	3.9
Unilever PLC	Consumer Defensive	3.9
Novartis AG	Health Care	3.9
TOTAL:		49.2

Sector Exposure by Source of Revenue[#]



Geographical Exposure by Source of Revenue[#]



[#] 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.

⁺ Benchmark is the MSCI World NTR Index (AUD). All MSCI data 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.magellangroup.com.au/funds/benchmark-information/.

^{*} 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

Market Commentary

Global stocks slumped for a third consecutive quarter in the three months to September after a higher-than-expected reading on US inflation signalled the Federal Reserve would respond aggressively, faster inflation fuelled by higher energy prices and a rising US dollar pressured other central banks including the European Central Bank to raise rates, talk rose that China's economy is in trouble, and new UK Prime Minister Liz Truss lost the confidence of investors when announcing an unfunded widening in the budget deficit. During the quarter, nine of the 11 sectors fell in US-dollar terms. Communications (-12%) fell the most while consumer staples (+2.1%) rose most. The Morgan Stanley Capital International World Index lost 6.2% in US dollars but rose 0.3% in Australian currency after the Australian dollar dived.

US stocks dropped after the inflation report for August fanned expectations the Fed would need to raise the cash rate more than expected and keep it higher for longer. While the report showed consumer prices were flat in August (for a 12-month rate of 8.3%), the core measure that strips out food and energy prices jumped a higher-than-expected 0.5% in the month (for a 12-month rate of 6.3%). The Fed responded to evidence inflation is more about economic momentum than transitory shocks by raising the cash rate by 0.75% in September to between 3% and 3.25%. This followed a similar hike in June and July and marked the fifth increase since March when the rate was close to 0%. In political news, Congress passed a bill dubbed the Inflation Reduction Act, which, as it contains an estimated US\$375 billion in measures to fight climate change, President Joe Biden hailed as the "biggest step forward on climate ever". The S&P 500 Index slumped 5.3%.

European stocks dropped after the European Central Bank raised interest rates for the first time since 2011 and warned "sacrifice" was needed to tame inflation. Eurozone inflation accelerated to a fresh record high. Italy's government fell and sent the country to a snap election, and the UK opted for a new prime minister who triggered a financial and political crisis with unfunded fiscal stimulus that included tax cuts for higher earners and relief for higher energy prices. The ECB raised its key rate in two steps by a bigger-than-expected 125 basis points to 0.75%, to end eight years of negative rates. The central bank acted after monthly reports showed inflation setting fresh record highs on every release – culminating in a reading of 10% in the 12 months to September. Inflation rose as benchmark electricity prices peaked 1,000% above their average of the past decade, and the euro fell to a 20-year low against the dollar (which boosts import prices). The central bank unveiled its 'transmission protection instrument' that is designed to stop the spread between sovereign yields widening too much. In political news, Italy's prime minister elect after the September poll is Giorgia Meloni of the Brothers of Italy party, who is described as centre right by the Italian media. In the UK, Prime Minister Boris Johnson resigned after losing the confidence of his party and was replaced by Truss. The new leader announced a 'mini-budget' that added to government debt and inflation pressures and triggered talk she would soon be removed. The Bank of England was forced to intervene to stop a systemic crash after bond prices plunged. The Euro Stoxx 50 Index shed 3.3%.

Japan's Nikkei 225 Index dipped 1.7% as news the economy expanded a revised annualised 3.5% in the three months to June limited losses. In July, Prime Minister Fumio Kishida's ruling Liberal Democratic Party won a landslide victory in elections for the upper house, two days after former LDP prime minister Shinzo Abe was assassinated by a lone gunman. Australia's S&P/ASX 200 Accumulation Index rose 0.4% on higher commodity and energy prices, even as the Reserve Bank of Australia raised the cash rate every month by 50 basis points, taking the rate to 2.35%, to fight inflation that reached 6.1% in the 12 months to June. China's CSI 300 Index plunged 15% as reports showed repeated zero-covid-related lockdowns and heatwaves had inflicted so much damage on the economy authorities needed to respond with stimulus, the yuan slumped to a record low in offshore trading of below 7.2 to the US dollar, and China fired ballistic missiles over Taiwan to protest against a visit by US House of Representative Speaker Nancy Pelosi. The MSCI Emerging Markets Index shed 13% in US dollars as concerns rose a higher US dollar, rising food prices and higher US interest rates could destabilise countries, and Brazil's presidential election loomed that could send the country into a political crisis if either right-leaning President Jair Bolsonaro or former leftist president Luiz Inacio Lula da Silva or their supporters refused to accept the result.

Fund Commentary

The portfolio recorded a negative return for the quarter. The biggest detractors in local-currency terms were the strategy's holdings in Microsoft, Alphabet and Meta Platforms. The trio slid mainly because they are proxies for economic activity: Microsoft for business IT investment; Alphabet, the owner of Google; and Meta, the owner of Facebook, for advertising. Meta confirmed as such when announcing its second-quarter earnings; saying that ad demand and pricing are declining due to a slowing economy.

A further blow for Microsoft was that its US\$69 billion purchase of computer games developer Activision Blizzard faces a probe by the UK regulators over whether or not it could hamper competition.

The biggest contributors included the investments in Netflix, Verisign and PayPal Holdings. Netflix gained after the streaming TV leader reported it lost a fewer-than-expected 970,000 subscribers in the second quarter. Verisign gained after the US network infrastructure company won more investor favour after reporting in late July a 6.9% jump in second-quarter revenue. PayPal surged after saying activist investor Elliott Investment Management is one of its biggest shareholders and that cost-cutting will save US\$900 million this fiscal year and US\$1.3 billion in the next one.

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

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