

# MFG Core International Fund

(MANAGED FUND) (TICKER: MCSG)

A diversified global equity portfolio of 70-90 of the world's best companies

ARSN 645 515 082

APIR MGE3851AU

AS AT 30 SEPTEMBER 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 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

<b>Portfolio Manager</b>	Elisa Di Marco	
<b>Structure</b>	Global Equity Fund, A\$ Unhedged	
<b>Objective</b>	Achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified portfolio of high quality companies	
<b>Investment Risks</b>	All investments carry risk. While it is not possible to identify every risk relevant to your investment, we have provided details of the risks that may affect your investment in the relevant Product Disclosure Statement. You can view the PDS for the fund at <a href="http://www.magellancoreseries.com.au">www.magellancoreseries.com.au</a> .	
<b>Inception Date<sup>1</sup></b>	11 December 2020	
<b>Management Fee<sup>2</sup></b>	0.51% per annum	
<b>Buy/Sell Spread<sup>3</sup></b>	0.10%/0.10%	
<b>Minimum Investment<sup>3</sup></b>	AUD\$10,000	
<b>Fund Size/NAV Price</b>	AUD \$24.6 million / \$3.9282 per unit	
<b>Distribution Frequency</b>	Semi-annually	
<b>Cboe Ticker</b>	MCSG	
<b>Tickers</b>	<b>Solactive iNAV</b>	<b>ICE iNAV</b>
<b>Bloomberg (MCSG AU Equity) Refinitiv (MCSG.CHA) IRESS (MCSG.CXA)</b>	MCSGAUIV MCSGAUDINAV=SOLA MCSGAUDINAV	MCSGAUIV Index MCSGAUIv.P MCSG-AUINAV.NGIF
Visit <a href="http://www.magellancoreseries.com.au">www.magellancoreseries.com.au</a> for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms		

<sup>1</sup>The inception date represents the first date the fund was offered to retail investors;

<sup>2</sup>Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST;

<sup>3</sup>Only applicable to investors who apply for units directly with the Responsible Entity.

## Performance Chart growth of AUD \$10,000\*



Past performance is not a reliable indicator of future performance.

## Performance\*

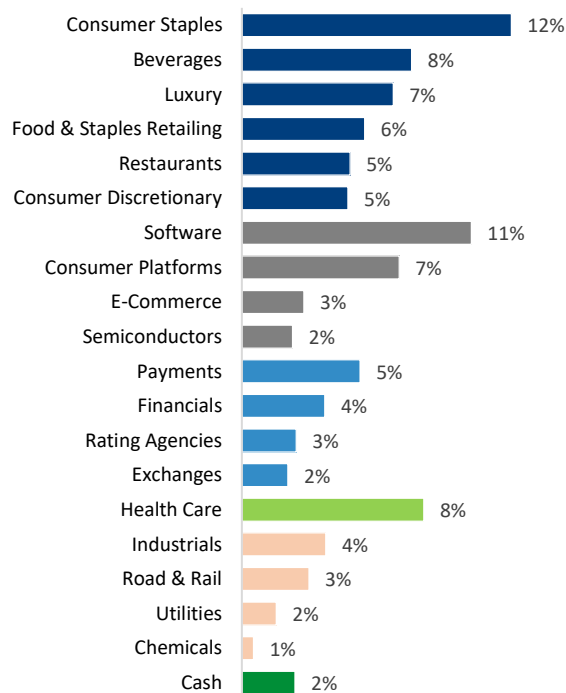
	Fund (%)	Index (%)**	Excess (%)
1 Month	-6.0	-4.0	-2.0
3 Months	-4.0	-0.4	-3.6
6 Months	2.7	7.0	-4.3
1 Year	18.8	21.5	-2.7
2 Years (p.a.)	2.7	4.7	-2.0
Since Inception (p.a.)	8.0	10.4	-2.4

Past performance is not a reliable indicator of future performance.

## Top 10 Positions

Company	Sector <sup>#</sup>	%
LVMH Moët Hennessy Louis Vuitton	Luxury	3.00
Home Depot Inc	Food & Staples Retailing	2.98
Nestlé SA	Consumer Staples	2.97
Procter & Gamble	Consumer Staples	2.95
Coca-Cola Company	Beverages	2.95
Alphabet Inc	Consumer Platforms	2.95
Apple Inc	Consumer Platforms	2.94
PepsiCo Inc	Beverages	2.88
Hermes International	Luxury	2.88
Amazon.com Inc	E-Commerce	2.87
<b>TOTAL:</b>		<b>29.36</b>

## Portfolio Snapshot<sup>#</sup>



\* 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/](http://www.magellancoreseries.com.au/benchmark-information/).

<sup>#</sup> Sectors are internally defined. Exposures may not add to 100% due to rounding.

## Market Commentary

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The September quarter saw listed shares fall with the MSCI World Index declining 3.5% in USD and 0.4% in AUD as oil prices rose, the US dollar rose and 10-year government bond yields, used by investors as a “risk free” benchmark, rose materially. Gains were led by the Energy sector (+12.5%), as oil rose almost 30% to a peak just before month end, with Communication Services (+2.0%) and Financials (+0.4%) the other gainers. Sectors typically more sensitive to higher real rates – Utilities (-8.2%), Real Estate (-6.5%) and Information Technology (-5.8%) – led declines. In local currencies, the S&P 500 and Nasdaq Composite indices fell 3.6% and 4.1% respectively, Europe’s STOXX 600 declined 2.5% and China’s CSI 300 fell 4.0%. Japan’s Nikkei 225 bucked the trend to rise 5.6% as the Yen fell.

This was a quarter of a meaningful and unusual shift in long-term bonds, with commentary comparing it to 2007. The 10-year US Treasury bond yield rose 80bp to around 4.6%, a level last seen in 2007. This large move seemed to have reflected a variety of factors and it is hard to distil what of them are transient: some are due to ongoing economic resilience despite the large monetary tightening of the past year; others are likely due to large Treasury issuance, ongoing quantitative tightening and falling holdings by foreign investors. That is, some of it is supply/demand imbalance; some other is a realisation that the neutral rate may be higher than during the last 10 + years. The latter may also be behind similar moves in Europe’s German Bunds and Japan’s government bonds, while in markets like Australia and the UK, economic resilience is less clear.

On the inflation front, data supported the trend for falling prices in most areas, with oil the obvious exception. In the US, annual core consumer price inflation adjusted to exclude volatile food and energy prices was 4.3% in August, the lowest annual rate in almost two years. In the 12 months to September, German core inflation was 4.6%, down from the annual rate of 5.5% recorded a month earlier.

China dropped its zero-covid policies late in 2022 but the economic rebound has been far less than seen in most developed economies. Policy to stimulate the economy has been incremental and relatively small in scale while weak consumer and business confidence has seen a propensity to caution on spending. Political events – the disappearance and subsequent removal of the Foreign Minister and Defence Minister and the purging of Xi loyalists soon after the National People’s Congress where they had been promoted by Xi – add to the uncertainty.

## Fund Commentary

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The portfolio recorded a negative return for the quarter in Australian dollars. The biggest contributors included the investments in technology companies Intuit and Alphabet, as well as defensive retail giant Costco. Intuit reported solid results and issued FY24 guidance that highlighted the resilience of its business model. Intuit also showcased how it will incorporate AI into its product suite and the associated benefits. Alphabet benefits from the easing of concerns about Search disruption from AI / ChatGPT. Alphabet also reported solid results demonstrating stable trends in advertising and continued cost control. Costco reported a solid 4Q result highlighting its resilience/ defensiveness in a tough consumer environment. The result was characterised by sustained strong underlying membership growth, reasonable but normalising retail sales growth, and steady Retail EBIT margin.

The biggest detractors in the quarter include ASML, Hermès and LVMH. Continued softness in overall semiconductor demand (notwithstanding strong AI investments) has weighed on industry sentiment and ASML. Tool makers like ASML have also been impacted by Taiwan Semiconductor Manufacturing Company pushing out orders for its Arizona fab due to talent shortages, and rumours of further order delays given end-market weakness. During the quarter, the luxury sector, including Hermès and LVMH, de-rated as the market became more fearful of the combined impact of a growth normalisation in the US and a slower-than-anticipated recovery in Chinese consumer spending.

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

## Outlook

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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 that, should major economies enter a recession in the coming 12 months, 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 cash flows is valuable to shareholders.

## Stock Story: Microsoft

(Adrian Lu – Investment Analyst)



Microsoft is the largest enterprise software vendor in the world. The company founded in 1975 has a broad suite of product offerings, with diversified exposure across many industry verticals. Microsoft is one of the three dominant providers of large-scale public cloud computing outside China and is a market leader in office productivity tools, infrastructure software and PC operating systems. While Microsoft has a strong presence across commercial and consumer markets, it generates most of its sales from commercial customers.

Enterprises around the world are still at the early stages of a multi-year shift towards adapting, modernising and infusing their businesses with digital innovations – often described as digital transformation. Microsoft is positioned as a key beneficiary of this disruptive trend thanks to its commercial cloud businesses, including Microsoft Azure.

Azure is competitively advantaged with its hyperscale infrastructure footprint, breadth of capabilities and enormous R&D engine supporting rapid innovation cycles. These characteristics are incredibly difficult to replicate. Microsoft is able to leverage these capabilities across its broader portfolio, as a flywheel to commercialise innovations such as artificial intelligence (AI). AI has seen tremendous progress in recent years and has the potential to further accelerate innovation and productivity. Microsoft has moved rapidly to integrate and roll out new AI features and products to capture this opportunity from Azure through to business applications and productivity software.

Within office productivity software, Office 365 and Teams expand the addressable market through innovations like Copilot AI, expanded use cases in collaboration, new users such as front-line workers, and deeper opportunities in verticals like healthcare and retail. Microsoft's opportunities span other areas including analytics, application development, and business applications like customer

insights and enterprise resource planning. Its enterprise incumbency and its status as a trusted partner enable the company to cross-sell its product portfolio and deliver a suite of integrated solutions to customers.

While the cloud opportunity is astounding, a significant part of Microsoft's business is still derived from its traditional on-premises software. Microsoft's Server products, including Windows Server and SQL Server, continue to offer the traditional perpetual licensing software model. However, these are not pure on-premises businesses, as they can also be deployed in the cloud or as part of hybrid landscapes, and therefore ought not to be viewed in isolation from Azure. In other words, we view these businesses as likely to remain resilient. Similarly, Windows, the world's dominant PC operating system, offers flexible deployment options from on-premises to the cloud.

In summary, we believe Microsoft possesses strong moat characteristics in an industry at the early stages of a substantial growth opportunity. Digital technology-led disruption is accelerating and Microsoft is at the frontier.

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