



MFG Core ESG Fund (Managed Fund) (Ticker: MCSE)

A diversified global equities portfolio of 70-90 high quality global equities with ESG risk integration

Fund Update: 31 December 2022

ARSN: 645 514 110

APIR: MGE8722AU

Fund Features

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

ESG Philosophy and integration

- Integrated proprietary ESG risk assessment process and low carbon framework
- Companies with material exposures to operations considered detrimental to society or the environment are removed from the universe
- Companies are reviewed and scored for the materiality of their exposure to E, S and G issues. The assessment is a direct input into portfolio management
- We overlay our proprietary low carbon framework to deliver a portfolio with a much lower carbon risk exposure than world markets

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, whilst reducing ESG risk exposures. | |
| Inception Date | 11 December 2020 | |
| Management Fee ¹ | 0.51% per annum | |
| Buy/Sell Spread ^{1,2} | 0.10%/0.10% | |
| Minimum Investment ² | AUD\$10,000 | |
| Fund Size/NAV Price ³ | AUD \$12.9 million / \$3.5976 per unit | |
| Distribution Frequency | Semi-annually | |
| Cboe Ticker | MCSE | |
| Tickers | Solactive iNAV | ICE iNAV |
| Bloomberg (MCSE AU Equity) | MCSEAIV | MCSEAUIV Index |
| Refinitiv (MCSE.CHA) | MCSEAUDINAV=SOLA | MCSEAUiv.P |
| IRESS (MCSE.CXA) | MCSEAUDINAV | MCSE-AUINAV.NGIF |
| Carbon Intensity ⁴ (CO ₂ t/US\$1m revenues) | Fund: 23 | Index ^{**} : 141 |

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

¹All fees are inclusive of the net effect of GST; ²Only applicable to investors who apply for units directly with the Responsible Entity. ³NAV price is cum distribution and therefore includes the distribution of \$0.07 per unit payable on 18 January 2023. ⁴As at 31 December 2022. Carbon intensity data available on a quarterly basis. Certain information © 2021 MSCI ESG Research LLC. Reproduced by permission.

Performance Chart growth of AUD \$10,000*



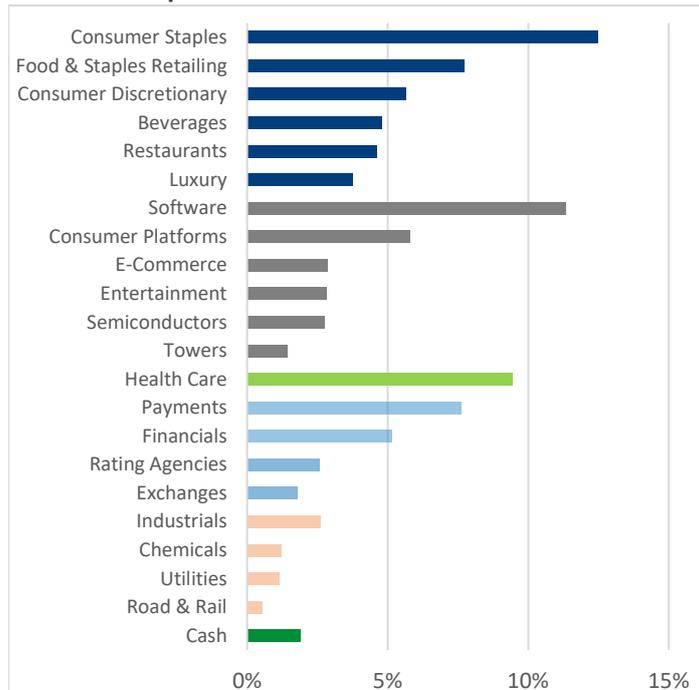
Performance*

| | Fund (%) | Index (%)** | Excess (%) |
|------------------------|----------|-------------|------------|
| 1 Month | -5.6 | -5.4 | -0.2 |
| 3 Months | 4.6 | 4.1 | 0.5 |
| 6 Months | 5.9 | 4.4 | 1.5 |
| 1 Year | -15.5 | -12.2 | -3.3 |
| 2 Years (p.a.) | 4.0 | 6.5 | -2.5 |
| Since Inception (p.a.) | 4.1 | 6.2 | -2.1 |

Top 10 Positions

| Company | Sector [#] | % |
|-------------------------|--------------------------|------|
| Nike Inc | Consumer Discretionary | 3.0 |
| United Health Group Inc | Health Care | 3.0 |
| Home Depot Inc | Food & Staples Retailing | 2.9 |
| Novartis AG | Health Care | 2.9 |
| Alphabet Inc | Consumer Platforms | 2.9 |
| Hermes International | Luxury | 2.9 |
| Amazon.com Inc | E-Commerce | 2.9 |
| Apple Inc | Consumer Platforms | 2.9 |
| MasterCard Inc | Payments | 2.8 |
| Visa Inc | Payments | 2.8 |
| TOTAL: | | 29.0 |

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.mfgcoreseries.com.au/benchmark-information/.

[#]Sectors are internally defined. Exposures may not add to 100% due to rounding.

Market Commentary

The final quarter of 2022 saw a rally in equity markets with the Morgan Stanley Capital International World Index up 9.8% in US dollars. We note in Australian dollars, the index rose 4.1% as the Australian currency rose. The US dollar strength notable for most of the year fell away in the quarter, as did the dominance of US markets. During the quarter, sector performance was disparate with six of the eleven industry sectors rising double digits in US-dollar terms and two sectors falling. Gains were led by Energy (+17.1%), Industrials (+14.1%) and Materials (+13.1%) while falls occurred in Consumer Discretionary (-4.8%) (a sector dominated by Amazon) and Communication Services (-1.15%). Real estate was next lowest at +3.94%.

In the US, the S&P 500 Index rose 7.1% even as the Federal Reserve raised the cash rate by 125bp to 4.25%-4.5% and maintained it would keep interest rates higher for longer through 2023. Politically, we saw the mid-term elections, which saw the Republicans win back control of the House of Representatives, ending control of Congress by President Joe Biden's Democratic Party.

The Euro Stoxx 50 Index closed out the quarter strongly (+14.3%) despite the European Central Bank also raising interest rates aggressively and still high inflation. The milder European winter, a marked drop in demand by consumers and good levels of energy storage meant the concerns of a deep energy crisis were somewhat allayed.

But perhaps most importantly, things began to take an initial gradual and then accelerated shift for the better in China. While the CSI 300 closed the quarter up just 1.8%, we saw a widespread shift that reduced the economic risks in China, a positive development for investors. After a spate of riots internally, Chinese policy towards its zero-Covid stance began to ease and has since rapidly unwound. As we write, borders have opened a good three months ahead of most people's expectations. We would caution though on being too sanguine as the long-term issues will not be easily or quickly resolved and the distancing of US-China relations is unlikely to turn fully.

As 2023 kicks off, we see growing earnings risks in parts of the market for the coming year and expect share prices to respond to these risks. Within Magellan's high-quality universe, a large proportion have attractive medium-term return prospects. We are delighted with the quality and diversity of the MFG Core ESG Fund and the longer-term prospects for our companies. These are advantaged companies with excellent track records of outsized business returns, skilled management and disciplined capital management.

Fund Commentary

The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in Nike, Adobe Systems and Rockwell Automation. Nike outperformed after weakness in prior quarters. Nike's quarterly result exceeded expectations, with positive commentary and results on margins and inventory normalisation. Adobe too had a better-than-expected quarterly result, with strength in Digital Media and Creative Cloud offsetting recent investor concern on competition and growth durability. Rockwell Automation's Investor Day was well received, with guidance confirmed and positive commentary on demand.

The biggest detractors in local-currency terms were the strategy's holdings in Amazon, Airbnb and PayPal. Amazon missed expectations with a cyclical slowdown impacting margins and growth. In addition, guidance for 4Q22 results was below expectations as the company expects higher costs, including energy, to more than offset its ramping productivity efforts in the near term. These headwinds are transitory, and we retain confidence in the growth and competitiveness of Amazon's businesses over the medium term. Airbnb underperformed, with management's quarterly guidance below market expectations. PayPal's share price dipped following market commentary suggesting the firm was struggling to maintain its market position.

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

Developments in Sustainability

Climate was centre stage during the quarter as the United Nation's annual Climate Change Conference (COP27) was hosted in Egypt. Positively, the conference concluded with the announcement of a 'Loss and Damage Fund', to assist nations most vulnerable to climate change. The United Nations Biodiversity Conference (COP15) also had positive outcomes. After more than 4 years of negotiations governments (remarkably not the U.S.) the Kunming-Montreal Global Biodiversity Framework was signed. Within the agreement are four long term 2050 goals supported by 23 global 2030 targets; this includes the 30 by 30 target which aims to protect 30% of the planet for nature by the end of the decade, restore 30% of the planet's degraded terrestrial, inland water, coastal and marine ecosystems and reform \$500bn of environmentally damaging subsidies. It wasn't all positive however, with States in the U.S. divided on the regulation of climate change and ESG investing.

During the quarter, we also saw the European Commission announce new rules around packaging and waste. Assuming the draft legislation is passed, companies need to be able to meet these rules by 1 Jan 2030 (for example, minimum percentage of recycled content and "by 2030 all packaging must be recyclable"). This applies to companies selling into Europe, for example, Pepsi, Nestle and L'Oreal.



Sam Walton opened the first Walmart discount store in 1962, in the small Midwestern town of Rogers, Arkansas (population just 5,700 at the time). From these humble beginnings, Walmart grew into a retailing giant that today serves hundreds of millions of customers each week in its >10,500 stores across 24 countries. In financial year 2022, Walmart generated more than \$572 billion in sales of groceries and other merchandise, making it the world's largest retailer. At year-end 2022, the company employed a total of 2.3 million people, making it the world's largest private employer as well.

So how were such success and scale achieved? Over the past 60 years Walmart has followed a consistent strategy of providing the lowest possible price (Every Day Low Prices, or EDLP) for a broad assortment of products. Despite its somewhat staid reputation, Walmart has been an early adopter of new technologies and has a history of innovation. It was a pioneer of bar code scanning and analysing sales information, and in the mid-1980s it launched its own satellite network to stay in touch with its growing distribution and store network. Over time, the company has built a wide economic moat derived from scale-based efficiencies and capabilities, a persistent focus on frugality and customer value, and a strong brand that communicates this focus.

One of Walmart's key competitive advantages is its unrivalled scale. As one of the largest retailers in the world, the company has significant purchasing power, which allows it to negotiate lower prices from suppliers. This in turn allows Walmart to offer lower prices to customers, driving higher sales (with volumes more than compensating for lower prices) and further increasing its competitive advantage. Additionally, Walmart's size allows it to invest heavily in technology and infrastructure, which further helps to improve efficiency and reduce costs. Another key element of Walmart's moat is its strong brand recognition and reputation. The company is known for its low prices and wide selection of products, which has helped it to attract and retain a large customer base.

In recent years, Walmart has also focused on expanding its e-commerce capabilities. The company has invested heavily in its online offering and in-store pickup/ delivery, and today, Walmart.com is a major player in the online retail space. This has helped Walmart stay competitive in the face of growing competition from online-only retailers like Amazon.

Despite its success, Walmart has faced criticism over the years. One concern is the company's impact on small businesses and local communities. Some critics argue that Walmart's expansion has led to the closure of small, locally owned stores, hurting the local economy. However, Walmart has also made efforts to be a positive force in the communities where it operates. The company has a long history of philanthropy and has donated billions of dollars to charitable causes around the world.

Walmart has also implemented a number of initiatives to reduce its environmental impact, including reducing greenhouse gas emissions and increasing the use of renewable energy. One example of Walmart's commitment to sustainability is the company's Project Gigaton. Launched in 2017, this initiative aims to reduce one billion metric tons of greenhouse gas emissions from the company's supply chain by 2030. For comparison, that is as much as the US Government's Inflation Reduction Act aims to cut by the same date. To achieve this goal, Walmart is working with suppliers, NGOs and other partners to identify and implement sustainable practices throughout the supply chain. About 4,500 suppliers accounting for more than 70% of Walmart's sales have signed up, making it the largest private sector initiative of its kind.

In addition to environmental sustainability, Walmart has focused on social sustainability. The company has a number of initiatives in place to promote diversity and inclusion at the employee and supplier levels, and it takes a leading role working with NGOs to promote ethical recruitment and working practices throughout its supply chain.

Overall, Walmart's business history has been one of steady growth and innovation. The company's competitive advantages, including its vast scale, consistent strategy and strong brand, have allowed it to become one of the biggest retailers in the world. And while Walmart has faced criticism in the past, it has also made significant efforts to be a positive force in the world through initiatives focused on sustainability and social responsibility.

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