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 March 2022

MFG CORE SERIES

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

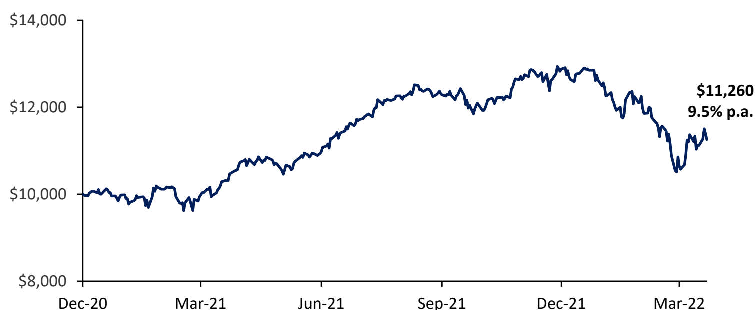
Fund Facts

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[2]	0.50% per annum	
Buy/Sell Spread[1,2]	0.10%/0.10%	
Minimum Investment[2]	AUD$10,000	
Fund Size/NAV Price	AUD $13.6 million / $3.8084 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 (CO_2t/US$1m revenues)[3])	Fund: 28	Index**: 157

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

[1]All fees are inclusive of the net effect of GST; [2]Only applicable to investors who apply for units directly with the Responsible Entity; [3]As at 31 March 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*



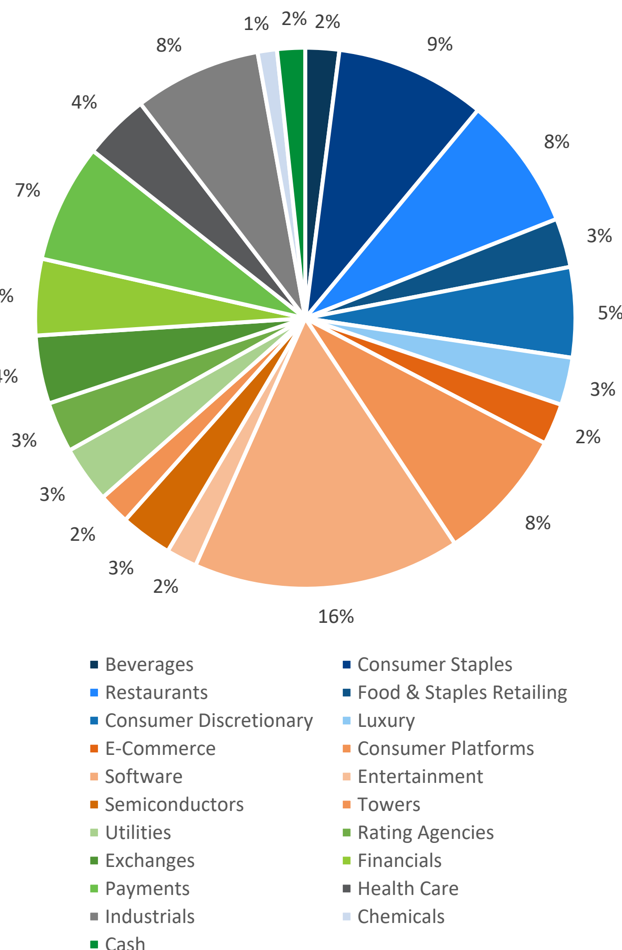
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-1.7	-0.7	-1.0
3 Months	-12.4	-8.2	-4.2
6 Months	-6.0	-1.7	-4.3
1 Year	9.2	11.7	-2.5
Since Inception (p.a.)	9.5	13.9	-4.4

Top 10 Positions

Company	Sector#	%
Alphabet Inc	Consumer Platforms	2.5
Starbucks Corporation	Restaurants	2.5
Microsoft Corporation	Software	2.5
Adobe Inc	Software	2.5
Autodesk Inc	Software	2.4
MasterCard Inc	Payments	2.3
Amadeus IT Group SA	Software	2.3
MSCI Inc	Financials	2.3
Rockwell Automation Inc	Industrials	2.2
Nestle SA	Consumer Staples	2.2
	TOTAL:	23.7

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.

**MSCI World NTR Index (AUD).

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

Market Commentary

Global stocks tumbled in the March quarter after Russia's invasion of Ukraine heightened uncertainty about the global economic outlook and boosted energy and grain prices in a world where inflation is at decade highs, and the Federal Reserve embarked on the first of an expected series of rate increases to quell US inflation which is at its highest in 40 years. During the quarter, eight of the 11 sectors fell in US-dollar terms. Consumer discretionaries (-11%) plunged the most while energy (+31%) soared most. The Morgan Stanley Capital International World Index dropped 5.2% in US dollars and 8.2% in Australian currency.

US stocks slid as bond yields surged, companies said higher inflation would curb margins and investors readied for up to another 11 US rate increases by the end of 2023. Inflation reached 7.9% in the 12 months to February, the fastest pace since 1982. Soon after, the Fed raised the US cash rate by 0.25% from close to zero. Projections released after the central bank's policy-setting board meeting showed the median board member expects to authorise another 11 rate increases of 25 basis points by the end of 2023 that would lift the key rate to 2.8%. Fed Chair Jerome Powell further boosted bond yields when he warned the central bank might increase the cash rate in steps of 50 basis points if inflation stayed high. The S&P 500 Index lost 4.9%.

European stocks fell as higher inflation prompted the European Central Bank to warn it would tighten monetary policy even though the Russian invasions of Ukraine raised prospects of a eurozone recession, boosted energy and grain prices and prompted sanctions designed to wreck Russia's economy. Eurozone inflation accelerated to a record high of 5.8% in the 12 months to February. The ECB signalled it was more worried about high inflation than slowing economic growth when it said it would phase out its bond-buying program by September or even sooner, overriding previous guidance the purchases would last until October at least. The Bank of England in March lifted its key rate by 0.25% to 0.75%, marking three rate increases in three months, to curb inflation that reached 6.2% in the 12 months to February, its highest in three decades. The Euro Stoxx 50 Index plunged 9.2%.

Japan's Nikkei 225 Index lost 3.4% amid global uncertainty. Australia's S&P/ASX 200 Accumulation Index, however, gained 2.2% as commodity and energy prices rose, reports showed the economy was strong, and the government delivered a generous budget as it readied for an election in May. China's CSI 300 Index dived 14.5% after covid-19 infections prompted lockdowns, investors speculated that sanctions against its ally Russia could spread to China and after a crisis in property slowed economic growth to a 12-month rate of 4% in the December quarter. The MSCI Emerging Markets Index lost 7.3% in US dollars as Russia's economic outlook collapsed and there was talk that higher US bond yields would lead to sovereign defaults.

Fund Commentary

The portfolio recorded a negative return for the quarter. The biggest detractors were the investments in Autodesk of the US, Starbucks and Meta Platforms. Autodesk tumbled after the US software company reported earnings that underwhelmed due to supply chain problems that are expected to cause problems into fiscal 2023. Starbucks slid on reduced guidance given weakness in China due to covid. Meta fell after the owner of Facebook offered only a weak revenue forecast due to Apple privacy restrictions inhibiting the reach and effectiveness of its advertising and its Facebook site suffered its first drop in regular users in part due to the popularity among the young of TikTok.

The biggest contributors were the investments in Shopify, Airbnb and Deere & Co. Shopify climbed after its latest earnings report showed total revenue for 2021 was US$4.6 billion, an increase of 57% on 2020. Airbnb surged after the online rental site reported fourth-quarter revenue reached a higher-than-expected US$1.5 billion, to set up the best year in the company's history. Deere rallied on another impressive quarter – revenue topped US$9.5 billion for the three months to January 31.

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

Stock Story: Schneider Electric

Since the 2015 UN Climate Change Conference in Paris more than 190 countries have committed to net-zero climate goals. A country committing to net zero effectively signs up companies, communities and consumers to net zero. This transition means that households, residential buildings, commercial buildings, data centres and hospitals need to reduce and, ideally, eliminate carbon emissions. While consumers, the primary purchasers of goods and services, are critical in this transition, it is companies that need to make adjustments to their operations, including to their product and service offerings, to enable consumers to make more sustainable choices. France-based Schneider Electric is focused on enabling companies and consumers to improve the efficiency of electricity.

Schneider Electric is a leading manufacturer of electrical products (for example, circuit breakers, wires, switchboards and switches) and a dominant global player in industrial automation. We consider the combination of electrification and technology places Schneider Electric at the forefront of the decarbonisation of buildings, the grid and business operations. Schneider Electric helps to reduce energy use, replace energy sources and electrify operations.

Example 1: Decarbonising buildings. Schneider Electric assists customers operating carbon-neutral buildings, including retrofitting old buildings. Schneider Electric has a full-service offering to achieve this goal, ranging from consultation to design and product. Sensors and renewable energy are key to the transformation. Sensors, for example, are used to assess the level of light and temperature, which then auto-adjust for the optimal outcome, which reduces energy use and cost.

Example 2: Smart electric grids. The increased use of renewables at home and commercially will lead to some decentralisation of the energy grid. With dispatchable generation no longer the only source of power, we now have greater variability in generation, which requires new solutions to ensure stability and consistent power to customers. Schneider Electric, through software solutions, hardware and consultation, is working with utilities to adapt to this new energy market.

Schneider Electric's exposure to decarbonisation is a sustainable growth tailwind, just one of the reasons why we invest in the company. Schneider Electric, which amassed revenue of 28.9 billion euros in fiscal 2021, has a sticky installed equipment base and customers, high barriers to entry with more than 650,000 worldwide distribution partners and 15,000 original equipment manufacturers, a strong brand that represents quality and allows premium pricing, and technology leadership and domain expertise. These positives are partially mitigated by the low to moderate switching costs, competition in the low-voltage industry, and moderate returns. Schneider Electric is also exposed to company capital expenditure cycles, which leads to cyclicality in earnings.

Overall, Schneider Electric is a quality business that has leading distribution and quality electrical equipment and automation. We expect Schneider Electric stands to benefit from the long-term decarbonisation of society.

Stock Story: Consolidated Edison

On 16 September 1878, The New York Sun reported that Thomas Edison had discovered a powerful means of producing electric light that promised "to make the use of gas for illumination a thing of the past". The news sparked a sell-off on Wall Street, home to the New York Stock Exchange: the stock of the New York Gas Light Company slumped more than 20% on the day as investors processed the implications of a technology claimed to be capable of providing light at less than 10% of the cost of the carburetted hydrogen gas then in use. Confronted with the risk of its product being rendered obsolete by Edison's invention, the New York Gas Light Company executed a merger with the five rival gas companies operating in New York City in 1884 to enhance its scale and put a stop to the competition between gas companies. In 1901, the merged entity, the Consolidated Gas Company of New York, used its financial resources to acquire a controlling interest in Edison's Electric Illuminating Company. The acquisition, a defensive manoeuvre, would prove transformational: the electrification of New York City and Westchester County delivered a generation of investment and growth that, in 1936, prompted the company to change its name to Consolidated Edison Company of New York.

Nearly 90 years on, another paradigm shift in the way energy is generated and consumed in New York is poised to present Consolidated Edison with a fresh growth opportunity that could be sustained for a generation. With a legislated target to achieve 100% carbon-free electricity by 2040 and economy-wide net-zero carbon emissions by 2050, New York has some of the most ambitious climate targets in the world. To equip its network to deliver this clean energy, support the electrification of the state's heavily emitting transportation and building heat sectors and increase the resilience of its network to the impacts of climate change, Consolidated Edison estimates that it will need to invest about US$68 billion at its key regulated utility subsidiary over the next decade, around two-and-a-half times the level of investment it deployed over the past 10 years. If approved by the regulator, this investment would drive massive growth in Consolidated Edison's 'rate base', a key measure of the company's earnings potential, to which the regulator applies the authorised rate of return when setting customer rates.

Securing approval for and delivering this level of investment will not be without challenges. Consolidated Edison projects that the implementation of its US$68 billion long-range plan will see its revenue requirement, a key component of the total customer bill, increase at a rate of about 8% per annum over 10 years. Sustained bill increases of this magnitude risk raising the ire of the company's customers and its regulators at the New York State Public Service Commission, where a subset of the commissioners that set electricity tariffs have historically advocated for rate increases to be limited to a level broadly in line with inflation. Consolidated Edison has sought to alleviate these concerns, pointing out that the 8% rate of growth in its revenue requirement overstates the impact on household budgets, with electricity charges likely to displace customer spending on gas heating for their homes and gasoline for their vehicles.

If it can navigate these challenges and deliver on its plans, we think Consolidated Edison, a company that traces its beginnings to 1823, will play a crucial role in addressing the greatest issue of the 21st century and reward investors in the process.

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