MFG Core International Fund

(Managed Fund) (Ticker: MCSG)

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

Fund Update: 31 December 2022

MFG CORE SERIES

ARSN: 645 515 082
APIR: MGE3851AU

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 on businesses
- Quarterly rebalanced, 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	
Inception Date[1]	11 December 2020	
Management Fee[2]	0.51% per annum	
Buy/Sell Spread[2,3]	0.10%/0.10%	
Minimum Investment[3]	AUD$10,000	
Fund Size/NAV Price[4]	AUD $19.0 million / $3.5724 per unit	
Cboe Ticker	MCSG	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSG AU Equity)	MCSGAUIV	MCSGAUIV Index
Refinitiv (MCSG.CHA)	MCSGAUDINAV=SOLA	MCSGAUiv.P
IRESS (MCSG.CXA)	MCSGAUDINAV	MCSG-AUINAV.NGIF

Visit www.mfgcoreseries.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]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 $0.07 per unit payable on 18 January 2023.

Performance Chart growth of AUD $10,000*

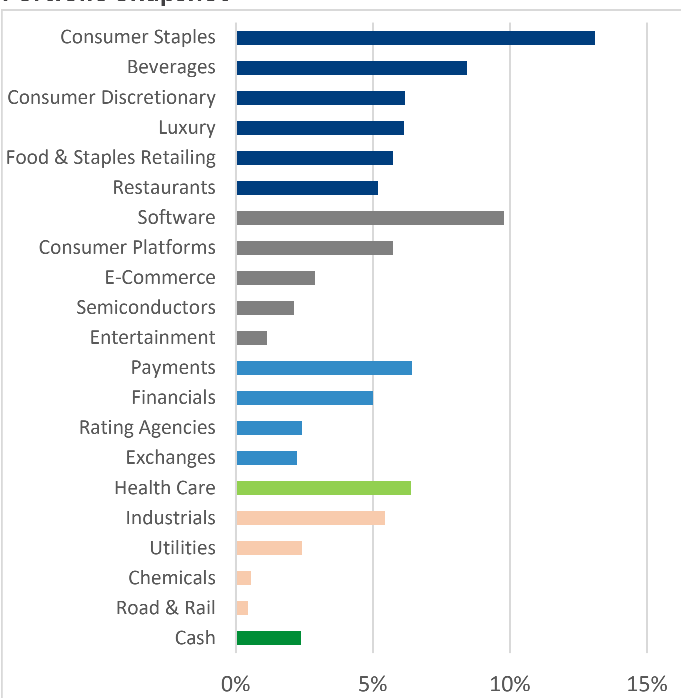
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-5.4	-5.4	0.0
3 Months	4.0	4.1	-0.1
6 Months	4.5	4.4	0.1
1 Year	-14.4	-12.2	-2.2
2 Years (p.a.)	4.4	6.5	-2.1
Since Inception (p.a.)	4.1	6.2	-2.1

Top 10 Positions

Company	Sector#	%
Home Depot Inc	Food & Staples Retailing	2.9
Novartis AG	Health Care	2.9
Procter & Gamble	Consumer Staples	2.9
Coca-Cola Company	Beverages	2.9
LVMH Moet Hennessy Louis Vuitton	Luxury	2.9
Alphabet Inc	Consumer Platforms	2.9
PepsiCo Inc	Beverages	2.9
Amazon.com Inc	E-Commerce	2.9
Nestlé SA	Consumer Staples	2.9
McDonald's Corporation	Restaurants	2.9
	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.magellangroup.com.au/funds/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 initially 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 International 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, Yum! Brands and Adobe Systems. Nike outperformed after weakness in prior quarters. Nike's quarterly result exceeded expectations, with positive commentary and results on margins and inventory normalisation. Yum! Brands' performance was supported by strong earnings and an Investor Day that reinforced the sustained long-term growth potential for the company. Adobe also had a better-than-expected quarterly result, with strength in Digital Media and Creative Cloud offsetting recent investor concern on competition and growth durability.

The biggest detractors in local-currency terms were the strategy's holdings in Amazon, Alphabet and Airbnb. 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. Alphabet's share price reflected a combination of the cyclical challenge of slowing advertising revenue growth and contracting margins given investments and underwhelming cost control. Airbnb underperformed, with management's quarterly guidance below market expectations.

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

Stock Story: Intuit

INTUIT

In 1983 former Proctor & Gamble employee Scott Cook co-founded Intuit in recognition of the long-term opportunity for software to replace pen-and-paper accounting. Intuit's early products included Quicken for personal finances and QuickBooks accounting software for small businesses. In 1993 Intuit listed and merged with ChipSoft, the maker of TurboTax tax preparation software.

In 1994 Microsoft, who released a competitor to the dominant Quicken called Microsoft Money in 1991, agreed to acquire Intuit for $1.5b in what would have been the largest software merger to date. The deal was abandoned nine months later after the U.S. Department of Justice, which already had Microsoft on its radar, announced that it would fight the deal due to competitive concerns.

Fierce competition ensued as Microsoft doubled down and sought to leverage its scale and hold over PC makers including pre-installation to dislodge Quicken from its dominant position. Despite Intuit divesting it in 2016 to focus on more prospective opportunities, it was Quicken that prevailed with Microsoft Money discontinued in 2009. A former Microsoft executive attributed this to Intuit's focus on marketing, retailing and ease of use, likely a vestige of Cook's experience at P&G.

Now 40 years after its founding and with Scott Cook still on its Board, Intuit's long-term opportunity remains significant.

While QuickBooks continues to dominate the market and has amassed over 7 million customers, its largest competitor remains manual processes or spreadsheets with less than 33% of US small businesses having adopted accounting software. There is also a significant opportunity to increase penetration of ancillary services including automated payroll and digital payments, which generate almost as much revenue as its core product.

QuickBooks is also moving upmarket. Historically focused on small businesses with 0-10 employees, in 2018 Intuit introduced QuickBooks Advanced targeted at businesses with up to 100 employees. Although there are fewer businesses of this size, higher prices and services attach rate result in 4-5x the revenue per customer. QuickBooks Advanced also allows Intuit to grow with its most successful customers rather than see them migrate to other products. Early signs are encouraging with QuickBooks Advanced finishing 2022 with 165,000 customers, up 40% on 2021.

QuickBooks also expanded its relevance with small businesses via its 2021 acquisition of marketing automation platform Mailchimp. Mailchimp offers Intuit the opportunity to address small business's number one problem of getting customers. Similar to core accounting software, customer adoption is low with about 75% of small businesses yet to adopt customer relationship management software. Intuit offers Mailchimp the opportunity to change this via a large US customer base to which it can cross-sell as well as its best-in-class marketing and onboarding capabilities.

Nearly 50 million people in North America used TurboTax to file their taxes in 2022. From here TurboTax targets 8-12% revenue growth per annum and has modestly exceeded this over the past five years. This ambition is supported by two key drivers. The first is a continuation of the long-term trend away from assisted tax filing via an accountant to DIY filing via accounting software, which has reached about 42% of filers in 2022. The second is Intuit's disruption of the higher revenue per filing assisted tax filing category via its hybrid TurboTax Live products that integrate relevant tax experts and artificial intelligence. Such is the appeal of this offering that after launching in 2018, about 5.5 million people used it to file their taxes in 2022, a number which we believe could quadruple in time.

We consider Intuit well positioned to capture these opportunities and ward off major competitive threats as it did with Microsoft in the 1990's. Key to this are Intuit's category-defining brands in QuickBooks and TurboTax supported by 40 years of history and cumulative ad spend. This is a critical advantage in categories where trust and word of mouth are key. Moreover, the $1.6 billion Intuit spent on advertising in 2022, including Super Bowl commercials, continues to reinforce this. Another advantage is Intuit's ability to leverage its huge customer base to see how people interact with its products, supported by a $2 billion per annum R&D budget to enable the business to continually adapt and improve its products.

Intuit's exposure to small businesses and its 2020 acquisition of Credit Karma means we anticipate it will feel some negative impact from an expected slowdown in US economic growth. However, the mission critical nature of QuickBooks and defensiveness of TurboTax should see it fare relatively well. Intuit's high operating margins and capital light business model delivers attractive returns on capital and strong free cashflow generation, positioning it well to pursue share buybacks in support of shareholder returns.

Sources: Intuit Annual Report 2022, company filings.