MAGELLAN

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 31 MARCH 2023**

Fund Features

- A portfolio of high-quality securities that is actively managed, research driven 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

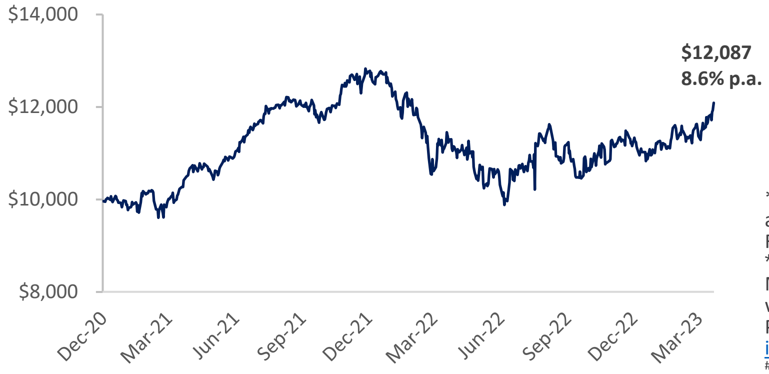
Fund Facts

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	
Investment Risks	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 www.magellancoreseries.com.au.	
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	AUD $22.4 million / $3.8948 per unit	
Distribution Frequency	Semi-annually	
Cboe Ticker	MCSG	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSG AU Equity) **Refinitiv (MCSG.CHA)** **IRESS (MCSG.CXA)**	MCSGAUIV MCSGAUDINAV=SOLA MCSGAUDINAV	MCSGAUIV Index MCSGAUiv.P MCSG-AUINAV.NGIF

Visit www.magellancoreseries.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] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST;
[3]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	6.9	3.8	3.1
3 Months	11.2	9.1	2.1
6 Months	15.6	13.5	2.1
1 Year	7.6	4.3	3.3
2 Years (p.a.)	8.5	7.9	0.6
Since Inception (p.a.)	8.6	9.6	-1.0

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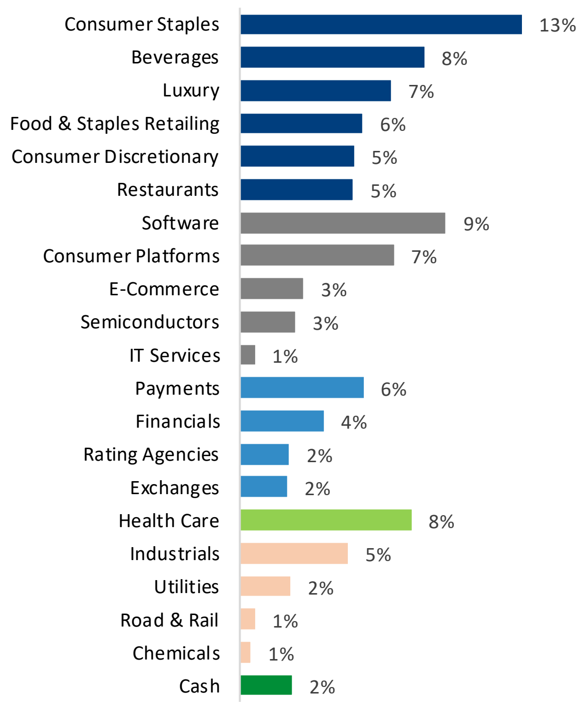
Top 10 Positions

Company	Sector#	%
Hermes International	Luxury	3.05
LVMH Moet Hennessy Louis Vuitton	Luxury	2.99
Nestlé SA	Consumer Staples	2.99
Apple Inc	Consumer Platforms	2.97
McDonald's Corporation	Restaurants	2.96
Procter & Gamble	Consumer Staples	2.96
Coca-Cola Company	Beverages	2.95
Amazon.com Inc	E-Commerce	2.94
PepsiCo Inc	Beverages	2.93
Home Depot Inc	Food & Staples Retailing	2.92
	TOTAL:	29.66

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.magellancoreseries.com.au/benchmark-information/.
\# Sectors are internally defined. Exposures may not add to 100% due to rounding.

Market Commentary

Global equities have started the 2023 year rising in the first quarter in all major regions though the rally is notably narrow. The MSCI World NTR Index rose 7.7% in USD and 9.1% in AUD, with two key developments – the public launch of ChatGPT, bringing artificial intelligence (AI) to the masses, and a banking crisis that started in the US and spread. On the economic front, there continued to be low unemployment, solid personal income growth and a softening of inflation across the developed world. In local currency terms, 8 of the 11 industry sectors rose with the information technology (+21.0%), communication services (+17.9%) and consumer discretionary (+16.1%) sectors performing the best. Falls were led by the energy sector (–3.8%), financials (-1.9%) and health care (-1.9%) as commodity prices fell and a banking crisis saw several banks fail and major steps taken by regulators to avert deepening instability.

The S&P 500 Index rose 7.0% in the first quarter of 2023. The US Federal Reserve raised the cash target rate a further 50bp to a 4.75% to 5% target range in two 25bp increments, slowing its pace of increase. With interest rates rising by 450bp since the start of this tightening cycle a year ago, the impact on slowing inflation and slowing economic growth is starting to become more apparent, though recent data on US economic growth has remained resilient and ahead of expectations. One clear sign that the sharp move higher in interest rates has consequences was the collapse of California-based Silicon Valley Bank, after a run on its deposits led to its inability to meet liquidity needs. The crisis escalated across other smaller US banks and then to Credit Suisse in Europe before the regulators' responses finally worked to avert a systemic crisis. To do this, they provided liquidity to banks on generous terms and galvanised major banks to intervene to help reduce stress in the system.

The Euro Stoxx 50 rose 13.7% this quarter to be just shy of the high of January 2022. This has occurred despite the ongoing war in Ukraine, still elevated, albeit improving, levels of inflation across Europe, ongoing interest rate increases by the European Central Bank and the bank sector stresses noted above. Encouraged by regulators, UBS took over Credit Suisse in March given its pending collapse.

Across the Asian region, Japan's Nikkei 225 Index rose 7.5%, Australia's S&P/ASX 200 Accumulation Index gained 3.5%, China's CSI 300 Index rose 4.6% and the MSCI Emerging Markets Index added 3.5% in US dollars. Japan has a new Bank of Japan Governor, Kazuo Ueda, and his policy decisions, particularly the shift away from Yield Curve Control, will be closely watched given implications for global money flows. China continues its committed, albeit chaotic reopening and cut the Reserve Requirement Ratio for its banks in March to help with efforts to revitalise economic growth. Geopolitical tensions between China and the US were again evident during the quarter, including the cancelling of a visit by the US Secretary of State to Beijing and coordinated widening of restrictions on the export of advanced semiconductor machinery to China.

Fund Commentary

The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in Salesforce, Hermès and Apple. Salesforce fell out of favour last year during the tech re-rate as the market lost confidence in the long-term margin potential of the company and became impatient with management's lack of historical track-record around driving profitability. During the quarter, Salesforce announced significant cost-out initiatives and committed to a share repurchase program that restored the market's confidence in Salesforce's profitability potential and indicated a shift in management's focus towards profitable-growth and investor friendly capital allocation. Hermès performed well as its exposure to the reopening of Asia, especially China, gained momentum. Hermès stands to be a key beneficiary of pent-up demand for luxury and travel amongst Chinese consumers. Apple too performed well, benefiting from the flight to quality amidst the volatility caused by the banking crisis and the opportunities from the China reopening.

The biggest detractors in local-currency terms were the strategy's holdings in Home Depot, Dollar General and John Deere. Home Depot's performance in the quarter was owing to weaker-than-expected financial performance in quarterly results, its outlook for FY23 and weakening sentiment for home improvement retailing given the outlook for the economic cycle. Dollar General underperformed following downgrades to company guidance due to challenges for low-income consumers and strategic investments. John Deere underperformed, with the strong quarterly results offset by peer weakness.

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

Outlook

It certainly appears that markets have 'climbed the wall of worry' during 1Q2023 though it is fair to reflect that the overall indices' strengths have been heavily influenced by a few stocks. As the banking crisis broke in March, we were reminded that we have been on crisis watch for some months now; history tells us that significant and rapid monetary policy tightening tends to break things. We would anticipate the tightening to be almost complete (with perhaps one last 25bp increase for the Federal Reserve?) with the Australian Reserve Bank pausing its rate increases in April. We believe inflation will continue to be the core focus as central banks work to bring inflation down to target levels and we will need to continue to see lower inflation datapoints over 2023 if Central Bank rate rises are to pause.

A systemic crisis in banking has been averted but it seems plausible, if not probable, that further breakages may lie ahead. Analysis of insurance company holdings, commercial real estate and refinancing risks on maturing debt as well as those more exposed to a contraction of lending, especially by smaller banks, will be ongoing. There will be increased regulation of banks in the US and it is likely credit growth has been impaired by the events of recent weeks, laying the case for less economic growth in the months ahead. The risk that these pressures may ultimately translate into an economic recession in many parts of the world is elevated but the depth of the slowdown remains unclear.

Labour markets are lagging indicators and are unhelpful for gauging progress on wage inflation. It is notable that layoffs in the US have picked up and are spreading much further afield than the large numbers being reported for many technology companies. Where surveys collect data on inflation expectations, such as by the University of Michigan, we note that these remain anchored as consumers anticipate current high inflation will fall. Annualised, the month-on-month increase in core PCE inflation data for February is at 3.7%, suggesting improvement in headline figures will continue.

On another positive note, the recent difficulties for financials and progress on inflation likely bias the risks to the long end of the yield curve, or 10-year government bond yields, to stay in the recent range, and below 4% in the US. This is a positive for the valuations of longer-duration investments, especially those with strong cash flows and high returns on capital. The backdrop in which we find ourselves once again feels like one in which the Magellan strategy is advantaged. We believe that our process leads us to highly advantaged companies that are balanced within the portfolio between those with strong secular growth tailwinds and those with low economic sensitivity and resilience.

Stock Story: Mastercard

(Elisa Di Marco - Portfolio Manager)

Mastercard is one of the most recognisable brands in the world. You may know Mastercard as the card in your wallet that can be used at merchants globally, or perhaps it's from their memorable multi-decade 'priceless' marketing campaign. The network's global penetration of nearly 100m merchants and 3.1 billion cards creates a seamless and ubiquitous payments experience that is 'priceless' to network participants, which makes it extremely valuable to shareholders.

Since Mastercard was formed in 1966 the network has been part of the payments revolution. Mastercard along with peers Visa, American Express and, more recently, PayPal have been transforming payments, and commerce more broadly. We've moved from the confines of paying in cash and cheque and signing to having ready access to credit and digital cash (debit) to swiping to tapping, e-commerce, mobile payments, digital wallets and real-time payments. The innovation has been remarkable, and beneficial, to consumers, merchants, governments, and shareholders.

Over the last decade Mastercard's payment volumes, merchant network and card reach have more than doubled. This growth has generated attractive 15% annual compounded returns for shareholders. The consistency and strength of the business are due to several layers:

1) Business quality – Payment companies enjoy the strong protections of the network effect that links consumers, merchants and banks – where each additional user boosts the benefits of the network for all users. It is extraordinarily difficult to launch and grow to scale a global network, creating high barriers to entry, and therefore making the businesses of Mastercard and its three peers resilient to aspiring competitors. These network characteristics allow Mastercard to generate high-quality, consistent earnings that continue to compound for shareholders.

2) Structural tailwinds – Mastercard benefits from multi-pronged structural growth tailwinds over several decades. First was the convenience and security of using cards over cash and cheque. This physical convenience then morphed into digital payments convenience on desktop computers and mobile. Digital convenience was turbocharged by the necessity of fast and secure digital payments that underpin the e-commerce revolution. These tailwinds persist globally and are further supported by nascent tailwinds from growth in business and government digital payment processes. All of these tailwinds have been supported by ongoing innovation from Mastercard, their peers, and technology companies.

3) Strength in strategic capital allocation – Mastercard has been a master capital allocator over the past decades. The business in 2012 generated ~90% of revenue from payments and 10% from related services. In FY22, Mastercard generated 20% of its revenue from related services. The transition in revenue mix is due to organic investment and thoughtful acquisitions and is critical to the long-term sustainability of Mastercard's revenues, and to maintaining its strengths in business quality. The acquisition of the company 'Dynamic Yield' is a great example of how Mastercard acquired capabilities in AI and deployed them within its suite of loyalty capabilities across its network.

4) Business model – The bulk of Mastercard's revenue is earned as a percentage of the payment dollars or number of transactions made across its network. These dollars and transactions are mostly related to personal consumption expenditures. Importantly, these revenues are not directly dependent on credit quality for credit card transactions or interest rates on loans. However, the business model does experience cyclicality, with a strong consumer beneficial to revenues and a weaker consumer leading to slower growth. In the post-covid era, this business model proved highly favourable since a large portion of revenue is earned on the value of goods and services transacted, and therefore benefits from higher rates of inflation. This very attractive revenue model is complemented by an expense base that consistently increases at a lower rate than revenues, leading to steady increases in margins over time.

5) Financial inclusion – Mastercard is a socially aware company, prioritising financial inclusion for underbanked members of societies. To date, Mastercard, across 94 countries, has brought more than 675 million people into the digital economy, 18 million female-led businesses and more than 10 million small and medium-sized enterprises. Mastercard has achieved this through investment in communities, non-traditional partners and industry groups, assisting with technology and new solutions. This investment is valuable for the poor and unbanked, lifting them from a dangerous and rapacious informal financial system and into the modern, efficient, and safeguarded financial system. Importantly, this investment grows Mastercard's end market for decades to come.

The attractive dynamics of the payments industry continue to attract investment from competitors. However, to take market share from the four incumbents, any newcomer to the global payments business would need consumers and merchants to simultaneously accept its card, have banks/financial institutions to issue the cards and be connected to the merchant's bank/financial institution. To achieve that, the entrant would need to achieve mass awareness, offer a simple means of payment, have ubiquitous technology, have positive consumer appeal (for example, fraud protections or associated rewards programs), be trusted (even though the issuing bank bears the risk of theft and fraud), meet regulatory requirements in every country in which it wished to operate, and fulfil arduous customer and merchant servicing needs. With these elevated barriers to entry, we've seen mixed attempts to drive competition:

- Thus far the barriers to entry have been too challenging for many well-funded fintech and technology companies outside of China. Apple, Meta, Alphabet and Samsung have all stepped into payments, but they are leveraging the payment companies' infrastructure. Likewise, buy-now-pay-later and remittance companies rely on the incumbents. Cryptocurrencies are no threat either because payments this way are, so far, too slow and insecure to take market share and they face major regulatory impediments. Their volatile prices are another risk to adoption.

- Central banks, however, have different motivations. Their policy goals typically include safeguarding their domestic payments system, competition and efficiency (i.e., lower cost) in payment mechanisms. They have recognised the possible threats posed by American-owned payments networks on their policy goals. This has led many of them to support domestically owned real-time payment systems, which enable transfer of funds from one bank account to another within seconds at very low cost. These could pose competitive threats to Mastercard, particularly its debit business. However, while investment in real-time payments isn't new, it is extremely complex to develop and drive adoption. As a result, there has been mixed success globally. This year is somewhat of a milestone, with the U.S. Federal Reserve launching FedNow, its real-time payments network that has been more than five years in the making. While this is a milestone, in its initial form it is not targeting consumer payments. It will take many years for the Fed to be connected to the thousands of U.S. banking institutions, to have a comparable consumer offering and have a comparable proposition for financial institutions. Connecting FedNow to payments globally will be an even bigger hurdle. With less than 10% of Mastercard's revenue estimated to be linked to domestic debit transactions, this risk is likely to be manageable in the near term.

Mastercard faces risks beyond that of consumer spending levels and government investment in payments infrastructure. One risk is excessive regulation as governments move to protect privacy and competition. Evidence of this includes ongoing investigations from the Department of Justice into anti-competitive practices, regulation of interchange rates and developing countries regulating how banks interact with global networks.

But let's not forget, these watchful eyes from regulators and competitors are driven by the strength in business quality and the necessity of an efficient payments system. Mastercard's relentless focus on its network reach and capabilities has been priceless for consumers in its network, and extremely valuable to shareholders. While Mastercard will need to continue to invest in its network, we're confident that shareholders will continue to benefit from Mastercard's high-quality business model.

Sources: Mastercard website.