

Magellan Sustainable Fund (Managed Fund)

ARSN: 645 516 187

APIR: MGE4669AU

Ticker: MSUF

Fund Features

- A high conviction (20-50 securities), high quality focus, low turnover portfolio.
- Designed for capital preservation in adverse markets, whilst delivering attractive absolute risk-adjusted returns through the economic cycle.
- Portfolio construction incorporates detailed macroeconomic analyses to capture opportunities whilst mitigating risks, alongside the application of both fixed and dynamic risk limits.
- Investors can buy or sell units on Cboe like any other listed security or apply and redeem directly with the Responsible Entity.

Fund Facts

Portfolio Manager	Domenico Giuliano	
Structure	Global Equity Fund, A\$ Unhedged	
Inception Date	11 December 2020	
Management Fee ¹	1.37% per annum	
Buy/Sell Spread ^{1,2}	0.07%/0.07%	
Minimum Investment Size ²	AUD\$10,000	
Fund Size / NAV Price	AUD \$7.0 million / \$2.3634 per unit	
Distribution Frequency	Semi-annually	
Performance Fee ¹	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (MSCI World Net Total Return Index (AUD)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.	
iNAV tickers	Solactive iNAV	ICE iNAV
Bloomberg (MSUF AU Equity)	MSUFAIV	MSUFAUIV Index
Refinitive (MSUF.CHA)	MSUFAUDINAV=SOLA	MSUFAUIv.P
IRESS (MSUF.CXA)	MSUFAUDINAV	MSUF-AUINAV.NGIF
Carbon Intensity (CO ₂ t/US\$1m revenue) ⁴	Fund:20	Index*:141

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 \$0.05 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.

Fund Performance*

	Fund (%)	Index (%) ⁺	Excess (%)
1 Month	-5.4	-5.4	0.0
3 Months	0.2	4.1	-3.9
6 Months	1.1	4.4	-3.3
1 Year	-17.1	-12.2	-4.9
2 Years (p.a.)	0.7	6.5	-5.8
Since Inception (p.a.)	0.1	6.2	-6.1

Performance Chart growth of AUD \$10,000*



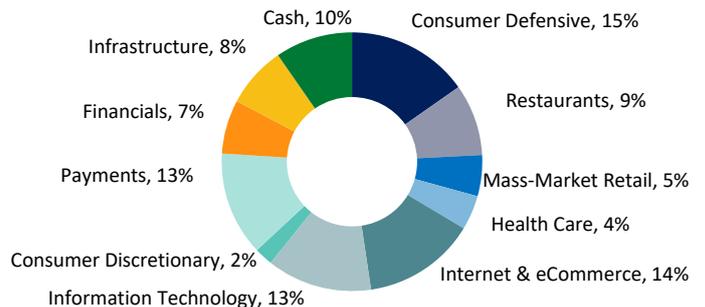
Environmental, Social, Governance and Low Carbon

- Integrated proprietary ESG risk assessment process and low carbon framework.
- Companies with material exposures to businesses considered detrimental to society or environment are removed from the universe, including exposures to tobacco, alcohol, gambling, adult entertainment and weapons, amongst other exposures as determined from time to time by Magellan.
- Companies are reviewed for the materiality of their exposures to environmental, social and governance issues, with assessments incorporated into our perspectives on business risks.
- We overlay our proprietary Low Carbon framework to deliver a portfolio with much lower carbon risk exposure than world markets.

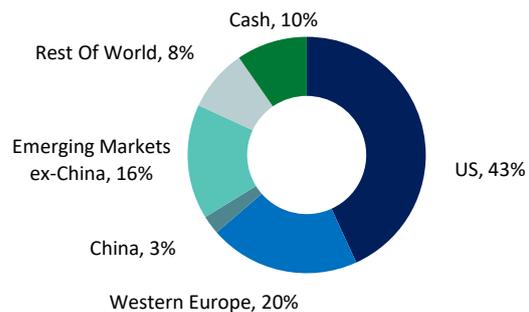
Top 10 Holdings

	Sector [#]	%
Microsoft Corporation	Information Technology	7.0
Alphabet Inc	Internet & eCommerce	6.7
Visa Inc	Payments	5.1
Walmart Inc	Mass-Market Retail	5.1
MasterCard Inc	Payments	5.1
SAP SE	Information Technology	4.6
Yum! Brands Inc	Restaurants	4.6
Novartis AG	Health Care	4.3
Unilever Plc	Consumer Defensive	4.2
Procter & Gamble	Consumer Defensive	3.9
TOTAL:		50.6

Sector Exposure by Source of Revenue[#]



Geographical Exposure by Source of Revenue[#]



* Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding.

⁺ Index 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/.

[†] 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

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.

Fund Commentary

Portfolio performance over the quarter divides into two periods, the first period reflecting earnings results and improved market optimism from signs of improving inflation trends. The second period in December reflects a reversion to pessimism following Fed statements regarding their determination to tame inflation and various economic signals pointing to reducing demand.

The largest contributors to performance included the payment networks Mastercard and Visa, reflecting better-than-expected results and ongoing normalisation of travel and entertainment patterns, including the reopening of China. Yum! Brands' performance was supported by strong earnings and an Investor Day that reinforced the company's competitive advantages and sustained long-term growth potential. Procter & Gamble's strength reflected its economic defensiveness, better-than-expected share trends and steady earnings expectations following its Investor Day. SAP delivered strong cloud growth and cloud margin expansion ahead of expectations, which helped offset some of the ongoing macro headwinds.

The largest detractor from performance was the holding in Amazon, which continues to face some challenges. Its 3Q22 results missed expectations, with a cyclical slowdown and wage/energy inflation impacting growth and margins at its AWS cloud business and International Retail businesses. It also provided guidance for 4Q22 results significantly 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. PayPal's share price dipped following market commentary suggesting the firm was struggling to maintain its market position. In our view, PayPal's share price more than captures the risks facing the company and we remain confident on their longer-term prospects. Meta Platforms had a mixed quarter, initially falling on poor revenue growth and margin challenges, then rebounding following announced reductions in staff and costs. Chipotle's share price strength reversed in December on increasing concerns of transaction weakness in the lower-income segments and weakening same-store sales growth. These are shorter-term issues that are more than countered by the long-term growth provided by the duration of Chipotle's store rollout and operating leverage.

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 nation's 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 all companies selling products into European markets, for example, Pepsi and Nestle.

Stock Story: Walmart



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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