

Magellan Sustainable Fund (Managed Fund)

ARSN: 645 516 187

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 Chi-X 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 | 1.35% per annum | | |
| Buy/Sell Spread ^{1,2} | 0.07%/0.07% | | |
| Minimum Investment Size ² | AUD\$10,000 | | |
| Fund Size / NAV Price | AUD \$7.8 million / \$2.7615 per unit ⁴ | | |
| 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 | Bloomberg Thomson Reuters IRESS | MSUF AU Equity MSUF.CHA MSUF.CXA | MSUFAUIV Index MSUFAUiv.P MSUF-AUINAV.NGIF |
| Carbon Intensity (CO ₂ t/US\$1m revenue) ³ | Fund: 24 | | Index ⁺ : 132 |

¹All fees are inclusive of the net effect of GST;²Only applicable to investors who apply for units directly with the Responsible Entity³As at 30 June 2021. Carbon intensity data available on a quarterly basis.⁴NAV per unit is cum distribution and includes a distribution of \$0.05 cents per unit distribution payable on 21 July 2021.

Fund Performance*

| | Fund (%) | Index (%) ⁺ | Excess (%) |
|-----------------|----------|------------------------|------------|
| 1 Month | 4.7 | 4.6 | 0.1 |
| 3 Months | 8.5 | 9.3 | -0.8 |
| Since Inception | 10.6 | 15.9 | -5.3 |

Performance Chart growth of AUD \$10,000*



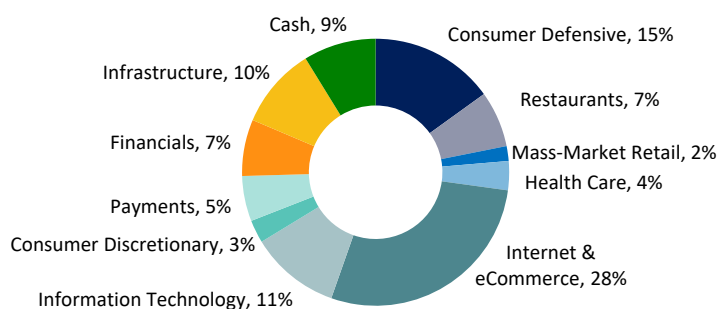
Environmental, Social, Governance and Low Carbon

- 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.

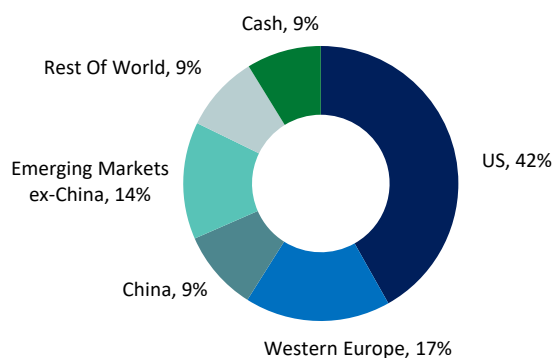
Top 10 Holdings

| | Sector [#] | % |
|----------------------------|------------------------|------|
| Microsoft Corporation | Information Technology | 7.7 |
| Alphabet Inc | Internet & eCommerce | 7.6 |
| Facebook Inc | Internet & eCommerce | 6.7 |
| Netflix Inc | Internet & eCommerce | 4.0 |
| Alibaba Group Holding Ltd | Internet & eCommerce | 3.9 |
| Reckitt Benckiser Group | Consumer Defensive | 3.7 |
| Novartis AG | Health Care | 3.5 |
| Chipotle Mexican Grill Inc | Restaurants | 3.5 |
| Unilever PLC | Consumer Defensive | 3.3 |
| Yum! Brands Inc | Restaurants | 3.3 |
| TOTAL: | | 47.2 |

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.

* Benchmark is the MSCI World NTR Index (AUD).

* 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

Global stocks soared to record highs as they rose for the ninth quarter in 10 during the three months to June after investors backed that vaccines and more government spending would drive economies, dismissed an acceleration in inflation as transitory, and thus believed statements from central banks they would keep monetary policy loose. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information technology (+12%) climbed the most on healthy earnings while utilities (-0.7%) declined on concerns that longer-term bond yields might rise. The Morgan Stanley Capital International World Index surged 7.7% in US dollars and 9.3% in Australian currency.

US stocks gained as companies, especially tech ones and the banks, reported healthy earnings for the first quarter, the administration of President Joe Biden announced plans for another US\$4 trillion in spending (that Congress is still to approve), consumers spent as they grew in confidence, and, by the White House count, 67% of adults have received one vaccine dose. Reports, however, on inflation provoked spasmodic caution. Consumer inflation rose 5.0% in the 12 months to May, the fastest pace since 2008, while producer prices surged 6.6% in the year to May. These reports fanned talk the US Federal Reserve might rethink its loose monetary policy. A Fed survey of its policymakers show they had brought forward their expectations of when they would sanction a higher US cash rate. They (as represented by their median forecast) now expect to approve two increases in the cash rate from close to 0% by the end of 2023. The S&P 500 rallied 8.2%.

European stocks rose as countries relaxed pandemic restrictions as vaccine programs rolled out and the European Central Bank said it would keep aggressive monetary stimulus in place, though gains were limited by news that an ever-more debt-heavy eurozone economy is contracting. A report showed the eurozone economy shrank 0.3% in the March quarter, which followed a contraction of 0.6% in the December quarter. Another report showed government debt stood at 98% of eurozone GDP at the end of December. The Euro Stoxx 50 Index rose 3.7%.

Japan's Nikkei 225 Index defied the global trend and fell 1.3% after a resurgence in covid-19 infections extended restrictions and a report said the economy shrank 1.0% in the first quarter. China's CSI 300 Index rose 3.5% as a release showed the economy expanded a record 18.3% in the March quarter from a year earlier. Australia's S&P/ASX 200 Accumulation Index gained 8.3% after the major banks reported upbeat results, energy and material prices climbed (iron ore prices reached record highs), the federal government's budget for 2021-22 came with more stimulus, and a report showed the economy expanded 1.8% in the March quarter, to be larger than before the pandemic. The MSCI Emerging Markets Index increased 4.4% in US dollars on signs the world economy is recovering even as covid-19 ravaged emerging countries, especially India.

Fund Commentary

The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in Alphabet, Facebook and Microsoft. Alphabet rallied after the parent of Google reported that rising spending on digital ads boosted first-quarter sales to US\$55.3 billion, a higher-than-expected rise of 34% from a year earlier. Facebook surged after first-quarter sales smashed expectations to rise 48% to US\$26.2 billion as advertisers sought access to the social media platform's 2.9 billion users and a US judge unexpectedly dismissed two complaints against the social-media giant from the US regulator because the judge said the Federal Trade Commission failed to prove the company was a monopoly. Microsoft rose as rising demand for PCs, gaming consoles, and digital services delivered over the cloud boosted the software giant's first-quarter sales by a higher-than-expected 19% to US\$41.7 billion. As well, in April, Microsoft agreed to buy speech-recognition firm Nuance Communications for US\$19.7 billion, to expand the services it can offer business customers.

The biggest detractors were the investments in Lowe's Co, Sydney Airport and US Bancorp. Lowe's declined after investors decided the more than doubling of its stock price in the 12 months to March had gone too far. Sydney Airport fell as the city entered its only second city-wide lockdown since the pandemic struck in early 2020. US Bancorp slid because banks lost their appeal as an inflation hedge when investors dismissed faster inflation as a fleeting problem.

In relative terms, the portfolio underperformed the benchmark over the quarter. This reflected a modest outperformance of cyclical stocks over defensive stocks, on average, within the index. Uncertainty around the Chinese regulatory outlook weighed on Chinese technology platforms, while the portfolio's utility holdings were hampered by a company-specific regulatory decree and the threat of higher interest rates in the medium term.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

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