Fund Update: 30 June 2022

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

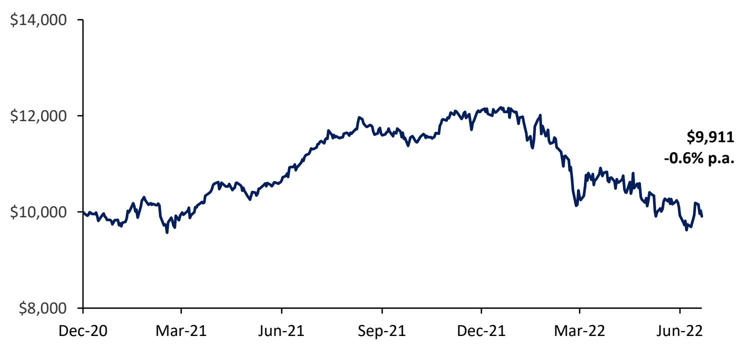
Portfolio Manager	Domenico Giuliano	
Structure	Global Equity Fund, A$ Unhedged	
Inception Date	11 December 2020	
Management Fee[1]	1.35% per annum	
Buy/Sell Spread[1,2]	0.07%/0.07%	
Minimum Investment Size[2]	AUD$10,000	
Fund Size / NAV Price[3]	AUD $7.4 million / $2.3885 per unit	
Distribution Frequency	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[4] (CO_2t/US$1m revenue)	Fund: 17	Index+: 149

[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]NAV price is cum distribution and therefore includes the distribution of $0.05 per unit payable on 21 July 2022. [4]As at 30 June 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	-3.6	-4.7	1.1
3 Months	-7.8	-8.5	0.7
6 Months	-18.0	-16.0	-2.0
1 Year	-10.4	-6.5	-3.9
Since Inception (p.a.)	-0.6	5.3	-5.9

Performance Chart growth of AUD $10,000*



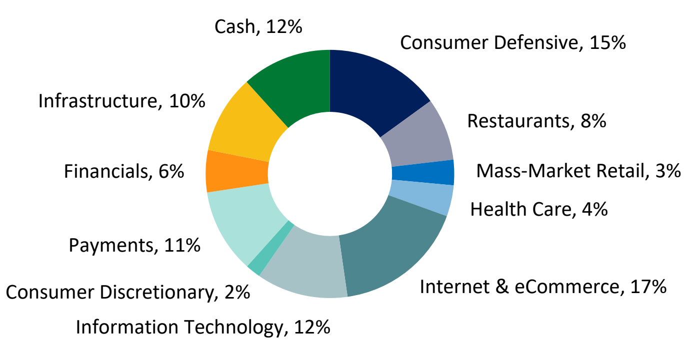
Environmental, Social, Governance and Low Carbon

- 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.

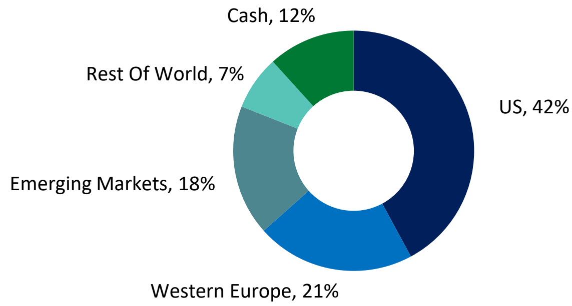
Top 10 Holdings

	Sector#	%
Alphabet Inc	Internet & eCommerce	7.7
Microsoft Corporation	Information Technology	7.5
Visa Inc	Payments	4.9
MasterCard Inc	Payments	4.7
Yum! Brands Inc	Restaurants	4.1
Novartis AG	Health Care	4.1
Unilever PLC	Consumer Defensive	3.8
Meta Platforms Inc	Internet & eCommerce	3.8
Reckitt Benckiser Group	Consumer Defensive	3.8
Nestle SA	Consumer Defensive	3.7
	TOTAL:	48.1

Sector Exposure by Source of Revenue#



Geographical Exposure by Source of Revenue#



* 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 data 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. 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.

Market Commentary

Global stocks fell for a second consecutive quarter in the three months to June after central banks tightened monetary policy to combat inflation, concerns grew the higher interest rates could pummel the US and global economies, doubts returned about the stability of the eurozone, and companies reported disappointing earnings and warned of pressure on margins. During the quarter, all of the 11 sectors fell in US-dollar terms. Consumer discretionaries (-24%) fell the most while energy (-5.1%) fell least. The Morgan Stanley Capital International World Index dived 16% in US dollars and lost 8.5% in Australian currency.

US stocks dropped as disappointing earnings (especially from retailers) added to pessimism that higher interest rates could send the US economy into recession. Inflation around 40-year highs prompted the Federal Reserve to deliver the first of two rate rises (that boosted the US cash rate by 1.25% to a range of 1.5% to 1.75%) in what is thought to be a series of rate increases that are expected to boost the key rate to above 3% by year end. As the University of Michigan consumer sentiment index slid to its lowest since the survey began in 1952 and mortgages surged to 14-year highs as the Fed commenced 'quantitative tightening' (asset selling), Fed chair Jerome Powell warned the country must accept a higher risk of recession to curb inflation. A report in June showed US inflation reached 8.6% in the 12 months to May, its fastest since 1981. Another report showed the US economy unexpectedly shrank at an annualised pace of 1.6% in the first quarter, whereas investors had expected a gain of 1.1%. The S&P 500 Index shed 16%.

European stocks slid as eurozone inflation set fresh record highs, the European Central Bank warned of tighter monetary policy and held an 'emergency meeting' to deal with the consequences, the European Commission downgraded growth forecasts and increased inflation predictions due to the energy crisis worsened by the Ukraine war, and the UK economic outlook crumbled. As a report showed eurozone inflation sped to 8.1% in the 12 months to May, ECB President Christine Lagarde warned the central bank's experiment with negative interest rates would end by September. The ECB held an unscheduled meeting to alleviate concerns that higher borrowing costs for indebted countries could destabilise the eurozone – the ECB said it would come up with a plan to control sovereign yields. On June 30, heavily indebted Italy sold government 10-year bonds at 3.47%, the highest yields since 2014. The EC reduced its growth forecasts for the EU and euro area for 2022 to 2.7% from 4% previously and said inflation would exceed 6% over the year. A report showed the eurozone economy grew 0.6% in the first quarter. In the UK, the Bank of England raised its key rate for a fifth consecutive month by 0.25%, to boost the key rate to 1.25%, and warned the economy would contract. In political news, Emmanuel Macron in April defeated Marine Le Pen in the French presidential elections, to make Macron the first head of state to be reelected since Jacques Chirac in 2002. But in June France was said to have become 'ungovernable' when Macron's centrist Ensemble (Together) alliance lost its parliamentary majority in general elections that saw the far left and far right thrive, the first such defeat for a president in the fifth republic that began in 1958. The Euro Stoxx 50 Index lost 12%.

Japan's Nikkei 225 Index shed 5.1% as a report showed the Omicron variant caused growth to contract at an annualised rate of 1% in the first quarter and an energy crisis loomed. Australia's S&P/ASX 200 Accumulation Index dived 12% after iron ore prices slid and the Reserve Bank of Australia raised its key rate by 0.75% in two steps to combat inflation running at 5.1%, as the Australian Labor Party in national elections secured government after nine years in opposition. China's CSI 300 Index jumped 6.2% as Beijing implemented monetary and fiscal stimulus and large cities reopened after lockdowns enforced under a zero-covid policy. The MSCI Emerging Markets Index tumbled 12% in US dollars as the higher US dollar put pressure on countries with large debts denominated in the US currency and a global economic slowdown loomed.

Fund Commentary

The portfolio recorded a negative return for the quarter. Among the biggest detractors, as a rise in government bond yields applied a greater discount to future profits, were the investments in Netflix, Alphabet and Meta Platforms. Netflix dived after the streaming service reported an unexpected decline in subscribers during the first quarter, when 200,000 people cancelled their subscriptions. Alphabet, the parent of Google, dropped after first-quarter revenue growth of 20% disappointed due to poorer-than-expected ad sales in Europe and on YouTube. Meta, the owner of Facebook, fell on concerns that a possible recession might reduce advertising volumes, Apple's privacy changes would erode its capabilities to target online ads, and TikTok's popularity was lowering user time for its younger users.

The biggest contributors, as defensives outperformed cyclicals, were the investments in Reckitt of the UK and Unilever. Reckitt gained after the consumer-goods company in the first quarter raised the prices of its goods by enough to protect margins from rising input prices. Unilever, the Anglo-Dutch multinational, did likewise.

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