MAGELLAN
EXPERTS IN GLOBAL INVESTING

Magellan Sustainable Fund (Managed Fund)

Ticker: MSUF

ARSN 645 516 187

A portfolio of high-quality global companies within a framework that considers Environmental, Social and Governance (ESG) risks. The Magellan Sustainable Fund seeks to lower carbon risks and is designed to achieve attractive risk-adjusted returns and preserve capital in adverse markets.

Sustainable Investing

'Sustainable' and 'ESG' investing is gaining greater interest from investors now more than ever. At Magellan, we have been thinking sustainably about our investments since the inception of each of our funds. As sustainable investors, we consider all long-term factors that may have a wide-ranging, material long-term impact on our society.

Our process is not constrained by a check list, or by ticking boxes. Instead, we focus on the future, by investing in companies we believe to have a **sustainable competitive advantage.**

What does ESG, and Sustainable investing mean to Magellan?

Simply, we consider all risks that could materially affect the outcomes of our investments. We work to understand and quantify these risks, irrespective of which acronym is used to define them.

"As part of the assessment of a company's intrinsic value, Magellan seeks to consider all issues that it is able to identify that may materially affect the investment outcomes for a company."

Domenico Giuliano, Deputy CIO, Head of ESG and Portfolio Manager. Magellan

Given this take on ESG, we see that there are three components that provide 'sustainability' to the Magellan Sustainable Fund.

The three pillars of 'sustainability'

1. The strategy's universe is restricted to those companies that are considered 'quality'.

The key barometer of quality is that a company must have sustainable competitive advantages. Sustainable competitive advantages may allow a company to earn materially in excess of its cost of capital for an extended period. There are no shortages of capital or entrepreneurs in a very competitive world, so companies that can sustain excess returns for multiple decades are special. This strategy will not invest in any company unless we consider it to have sustainable competitive advantages, no matter how 'cheap' it is.

2. The strategy assesses all material risks when considering business risks and agency risks.

The assessment undertaken here often interacts with the prior component. For example, does a 'quality' company risk losing its 'social licence' to operate over coming decades? This is much more than an academic question. Consider how the behaviour of some financial companies over the past decade has triggered political, and then regulatory, backlashes, which have eroded excess returns in the industry.

3. The strategy incorporates a proprietary low-carbon framework, which seeks to reduce investor exposure to the risks of a global economy that is decarbonising.

We judge that this ESG risk is the most significant and most systemic of ESG risks – and perhaps the most different. Before looking at carbon risks, it's worth noting that Magellan has long considered these components as essential within our investment process since they may significantly affect the strategy's returns. Issues relating to sustainability often manifest over many years. The strategy's investment time horizon is typically five years and beyond. As investors with a long term horizon, we consider it important to consider all material risks, including ESG ones.

Introducing the Magellan Sustainable Fund

The Magellan Sustainable Fund consists of a portfolio of 20 to 50 high-quality global companies within a framework that considers Environmental, Social and Governance (ESG) risks. The Fund seeks to lower carbon risks and is designed to achieve attractive risk-adjusted returns and preserve capital in adverse markets.

A strong focus on material ESG risks for each company in the portfolio

There are two prongs in our assessment of the ESG risks of stocks considered for the Fund's portfolio.

Firstly, companies with material exposures to industries that we consider detrimental to society are excluded. For example, this excludes companies involved in the production and manufacturing of tobacco and alcohol, as well as those involved in gambling, weapons manufacturing and adult entertainment.

Secondly, our investment team undertakes detailed research to identify those ESG factors which we consider pose a material risk to cash flows over our investment time horizon. An assessment of these factors is then incorporated into our rating of a company's quality - which is then considered by the portfolio manager in the Fund's portfolio construction.

Low carbon, high importance

At Magellan, we believe it is highly likely that the world will move further towards addressing climate change risks by reducing carbon emissions.

Climate change is an increasingly important issue for many global companies and investors, with the potential to profoundly affect business models through government regulation (eg carbon pricing), technology and changes in consumption patterns. These factors could directly and indirectly impact the relative cost of companies' products and services, customer demand, and pricing power.

The Fund's proprietary low-carbon process implements the following overlays:

1. Company carbon intensity cap

The company emissions cap is set having regard to globally agreed climate goals in line with the Paris accord (i.e. below 2 degrees Celsius temperature increase).

2. Fossil fuels exclusion

Examine company's business models to appraise vulnerability to decarbonisation of the global economy.

3. Portfolio emissions cap

Finally, an overall carbon emissions cap is applied to the whole portfolio, seeking to limit the Fund's carbon emissions to not exceed one-third that of the MSCI World index.

These caps and exclusions strive to achieve a high standard in managing the risks associated with climate change. Magellan believes this is appropriate given the magnitude of the risks associated with climate change and the ambitious nature of globally agreed climate goals.

Active mangement and portfolio construction

The Magellan Sustainable Fund's investment process integrates four key disciplines:

Intensive bottom-up stock analysis and industry research

Broad and detailed macroeconomic insight

Rigorous portfolio construction and risk discipline

ESG risk assessment and a propriety low-carbon framework.

Partnering for the future

Magellan is a signatory to associations that reflect our commitment to responsible investment and transparency to shareholders.

Association	PRI Principles for Responsible Investment	CDP	PRI Montréal PLEDGE	riaa
Year Magellan signed as signatory	2012	2016	2017	2017

Fund facts: Magellan Sustainable Fund

Fund name	Magellan Sustainable Fund (Managed Fund)
Ticker Code	MSUF
Portfolio Manager	Dom Giuliano
Inception date	11 December 2020
Fees	Management fee: 1.35% p.a. *Performance fee: 10% of the excess return over the higher of the Index Relative Hurdle and the Absolute Return Hurdle.
Benchmark	MSCI World Net Total Return Index
Investment objective	To achieve attractive risk-adjusted returns over the medium to long-term while reducing the risk of permanent capital loss. These objectives incorporate consideration of environmental, social and governance risks and the application of a proprietary low carbon framework.
Minimum investment timeframe	At least 7 to 10 years

**Additionally, Performance Fees are subject to a high water mark.*

How to invest

There are a range of ways to invest in the Magellan Sustainable Fund:

1. Invest through the Chi-X securities exchange (ticker: MSUF)
2. Invest directly with the Fund, or
3. Speak to your financial adviser.

To find out more about how to invest, please visit the 'Our Funds' section of the Magellan website at www.magellangroup.com.au.