

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

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AS AT 31 DECEMBER 2023

Fund Features

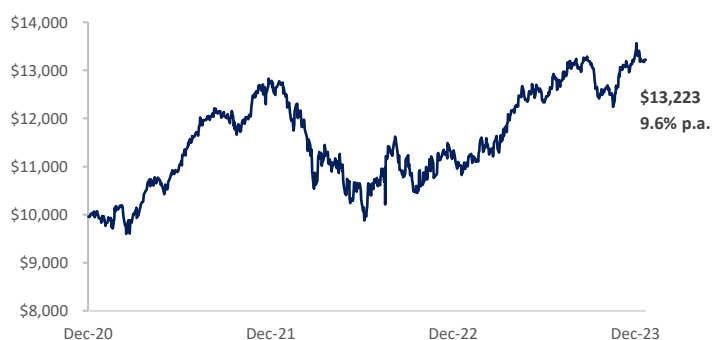
- A portfolio of high-quality securities that is actively constructed and rebalanced quarterly
- Integrated quality framework to identify companies with sustained competitive advantages, and with a forward-looking view to the evolution in technology, consumer behaviour and other fundamental impacts on 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 Date¹	11 December 2020	
Management Fee²	0.51% per annum	
Buy/Sell Spread³	0.10%/0.10%	
Minimum Investment³	AUD\$10,000	
Fund Size/NAV Price⁴	AUD \$25.8 million / \$4.1835 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.
⁴ NAV price is cum distribution and therefore includes the distribution of \$0.0771 per unit payable on 17 January 2024.

Performance Chart growth of AUD \$10,000*



Past performance is not a reliable indicator of future performance.

Performance*

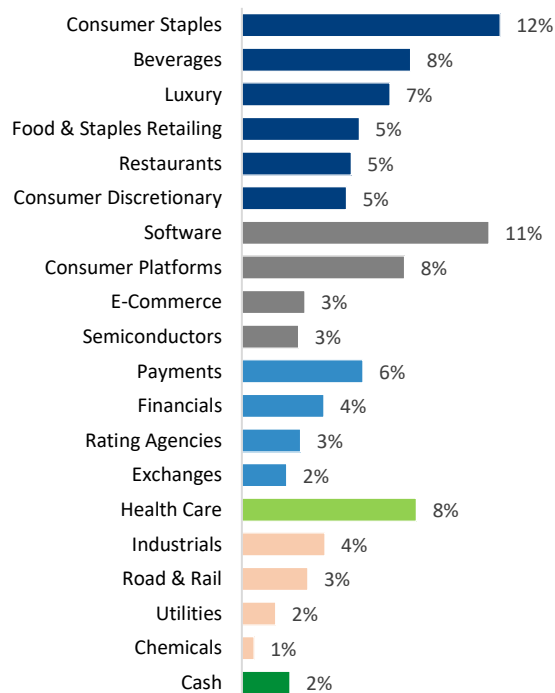
	Fund (%)	Index (%)**	Excess (%)
1 Month	1.3	1.9	-0.6
3 Months	6.5	5.4	1.1
6 Months	2.3	4.9	-2.6
1 Year	21.7	23.0	-1.3
3 Years (p.a.)	9.8	11.8	-2.0
Since Inception (p.a.)	9.6	11.4	-1.8

Past performance is not a reliable indicator of future performance.

Top 10 Positions

Company	Sector [#]	%
McDonald's Corporation	Restaurants	3.04
Alphabet Inc	Consumer Platforms	3.03
Nestlé SA	Consumer Staples	3.03
PepsiCo Inc	Beverages	2.98
Procter & Gamble	Consumer Staples	2.97
Coca-Cola Company	Beverages	2.96
Apple Inc	Consumer Platforms	2.95
LVMH Moët Hennessy Louis Vuitton	Luxury	2.95
Home Depot Inc	Food & Staples Retailing	2.93
Amazon.com Inc	E-Commerce	2.92
TOTAL:		29.76

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

The December quarter saw strong global equities returns with the MSCI World Index rising 11.4% in USD and 5.4% in AUD, driven by lower bond yields. The Information Technology sector led these gains (up 16.9%), followed by Industrials (11.4%) and Financials (11.2%), with these sectors sensitive to interest rate movements and the economic outlook. The Energy sector declined 5.5% as oil prices fell in the quarter. The S&P 500 rose 11.2%, outpacing the S&P/ASX 200 Accumulation Index (8.4%), MSCI Emerging Markets Index (7.4%) and Euro Stoxx 600 (6.4%). In contrast, China's CSI 300 Index fell 7.0%.

The main driver of equity returns in the quarter was a large fall in bond yields. US 10-year Treasury yields fell 70bp to 3.9%, German 10-year Bunds declined 80bp to 2.0% and Japanese 10-year JGBs declined 10bp to 0.6%. These were a response to easing inflationary pressures, with annualised US inflation in the three months to November running at 2% compared with 5.5% just six months earlier. Notably, this development led the Federal Reserve to suggest in December that its policy rate may be "at or near its peak". The tailwind to equity returns from lower interest rates was reinforced by a slightly improved profit outlook, with the gradual slowdown in global growth not hurting profit growth as much as many had feared earlier in the year.

The Chinese growth outlook remains challenged as the country digests its real estate bubble. Poor consumer, business and investor confidence are stiff headwinds to growth and will take time to improve in the absence of economic stimulus. While the Chinese government appears so far to be more focused on internal security rather than growth, there have been some signs of minor pro-growth policies. These growth headwinds are reducing geopolitical risk in East Asia as the Chinese government focuses more on domestic issues.

Fund Commentary

The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in technology companies Amazon, Salesforce and ASML. Amazon benefited from the broad rally in technology companies and reported a strong quarterly result. AWS growth was stable in the quarter, a minor disappointment; however, management indicated growth would inflect in 2024 as optimisation efforts "attenuated" and digital transformation programs resumed. Salesforce reported a solid result that showed continued top-line momentum and better-than-expected profitability, reflecting the successful execution of cost-cutting initiatives and favourable deal timing. ASML rose with semiconductor peers and while its Q3 result was within guidance, it outperformed consensus earnings on stronger gross margin. Softer global demand is being buoyed by strong China demand, which we continue to watch closely.

The biggest detractors in the quarter were defensive names that included Nestlé, Novartis and Unilever. Nestlé reported a disappointing quarterly result in October owing to an IT integration issue in its vitamins, minerals and supplements division. The issue is expected to be resolved in early 2024. Sector rotation into higher beta stocks caused the staples index to underperform. Novartis was affected by sector rotation; there was no stock specific news to change our thesis. However, we noticed an incremental positive on Novartis's drug pipeline potential post the recent investor day. Unilever's quarterly result disappointed investors, with only 38% of the business gaining share. While management reiterated it is on track to deliver mid-single-digit organic growth over the medium term, its turnaround and newly established strategic objectives are in early innings, with investors worried the company will need time to rightsize growth. Unilever's valuation remains compelling given its emerging markets exposure and defensive portfolio of brands.

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

Outlook

We are at the point in the cycle where inflation is slowing, interest rate settings by central banks have likely peaked and economic growth is looking increasingly like a soft landing. However, economic forecasting is notoriously error prone, and while we view the base case of a soft landing as reasonable, we are mindful that a more adverse outcome is possible.

We anticipate that portfolio returns are more likely to be driven by earnings growth. Given the portfolio's focus on quality, we view our companies are well placed to deliver solid earnings growth in the years ahead. Our definition of quality is valuable in a market focused on earnings growth, for several reasons: 1) quality companies tend to reinvest through the cycle, often leading to stronger earnings growth on a relative basis when the cycle turns and 2) when defining quality, we look for favourable trends in business quality alongside structural tailwinds, which typically lead to more durable cash flows.

Stock Story: Yum!

(Emma Henderson – Investment Analyst)



Behind the success of the world's most famous quick-service chicken restaurant, the world's second-largest pizza chain and the US's leading Mexican-style franchise sits Yum! Brands. With over 55,000 restaurants across more than 155 countries and territories, Yum! Brands is the world's largest restaurant company by number of restaurants and second only to McDonald's in total restaurant sales.

The iconic KFC, Pizza Hut and Taco Bell brands were originally brought together under consumer goods giant PepsiCo in the 1970s and 1980s as part of a series of acquisitions to diversify its business away from beverages. In 1997, PepsiCo announced it would be narrowing its focus back to its core beverages and snacks businesses and its fast-food unit would be spun off into an independent public company, ultimately named Yum! Brands.

Over the last 25 years, Yum! Brands has grown its global restaurant base by over 25,000 restaurants and has transformed from a US-centric company to a truly global business. It has also shifted its business model from owning and operating a portion of its restaurants to running an almost entirely franchised model, driving dual benefits of reduced risk and accelerated growth for shareholders.

Today, over 98% of KFC, Pizza Hut and Taco Bell outlets are operated by franchisee and licensee partners who deploy their own capital to open and operate restaurant outlets. These partners in turn pay Yum! Brands a royalty fee of approximately 5% of restaurant sales. In 2022, KFC, Pizza Hut and Taco Bell stores around the world generated US\$60 billion in total system sales, resulting in US\$3 billion in franchise revenue for Yum! Brands and contributing 90% of the company's earnings. Franchise fee revenue is a high-margin, capital-light earnings stream that is insulated from labour and commodity costs increases. The accessible price point and strong value-for-money nature of fast food add to the predictability of this attractive earnings stream throughout economic cycles.

By geography, approximately half of Yum! Brands' franchise revenue is now generated in international markets, including approximately 30% in fast-growing emerging markets like China, India, Southeast Asia and Latin America. While we have seen various misses from Yum! Brands and peers when trying to export US brands internationally, both KFC and Pizza Hut concepts have proven to have strong global appeal, with chicken and pizza products easily customised for local market tastes and preferences. Mexican-style Taco Bell, which is an outstanding business in its home US market, has proven harder to replicate internationally but is beginning to make inroads in markets like Spain, India, the UK, and China.

Despite significant growth and value creation delivered over the past few decades, there remains an exciting growth runway ahead for Yum! Brands, particularly in emerging markets where penetration of its brands remains low, consumer incomes are rising, and the existing restaurant landscape is highly fragmented and unsophisticated. Yum! Brands is targeting global system sales growth of 7% p.a. underpinned by new store growth of approximately 5% p.a. and modest growth in existing store sales through menu and marketing initiatives. The company has been running ahead of this net new store growth target, with over 100 countries contributing to global store growth of closer to 6% in recent years. Highly attractive payback periods on new stores and a more sophisticated and better-capitalised franchisee base relative to peers should prove key advantages to sustaining development in a higher interest rate environment.

Yum! Brands' growth will also be increasingly powered by digital and technology. The company has spent the last few years investing heavily in areas like customer analytics, digital ordering, loyalty programs and back-of-house restaurant technologies, which will be shared across its global system to drive better customer experiences, sales performance and franchisee profitability. One of many examples is the company's acquisition of Dragontail Systems in 2021 for approximately US\$70 million. Dragontail is an AI-based technology that automates and optimises multiple Pizza Hut processes, from preparing the pizzas to dispatching product to delivery drivers and enabling customer tracking. In an increasingly digital world, we expect economies of scale on largely fixed-cost technology investments, as well as consumer data advantages from operating over 55,000 restaurants, to become increasingly important competitive differentiators relative to smaller restaurant players in the highly fragmented US\$900 billion limited services restaurants industry.

Yum! Brands has a strong track record of ensuring its brands remain culturally relevant and loved. However, to ensure its brands can continue to grow sustainably, it will be important to manage food quality and nutrition risks as consumer preferences evolve, social risks as a large global employer and environmental risks as a large procurer of global agricultural and packaging products.

Yum! Brands remains a cornerstone of the Magellan Global portfolios, generating sustainable and defensive cash flows for investors.

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