Strategy Update: *31 December 2021*

MFG Global Plus (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets[1]
Lead Portfolio Manager: Hamish Douglass Co-Portfolio Manager: Arvid Streimann	1 July 2013	USD $3,687.0 million	USD $46,800.6 million

Objective	Approach
Capital preservation in adverse markets Pre-fee return of 10%p.a. through the economic cycle	High conviction (20-40 securities), high quality focus Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8^

Strategy Fundamentals[2]	Strategy
Number of Holdings	27
Return on Equity	31
P/E Ratio (1 year forward)	35.2
Interest Cover	16
Debt/Equity Ratio	81
Weighted Average Market Cap (USD million)	613,744

Top 10 Holdings[2]	Sector[2]	%
Microsoft Corporation	Information Technology	8.7
Alphabet Inc	Internet & eCommerce	6.3
Netflix Inc	Internet & eCommerce	5.3
Starbucks Corporation	Restaurants	4.9
Yum! Brands Inc	Restaurants	4.7
Visa Inc	Payments	4.6
Pepsico Inc	Consumer Defensive	4.5
Intercontinental Exchange Inc	Financials	3.9
Meta Platforms Inc	Internet & eCommerce	3.9
MasterCard Inc	Payments	3.7
	TOTAL:	50.5

3 Year rolling returns[3] (measured monthly)	1 Year	3 Years	5 Years	Since Inception
Against MSCI World NTR Index				
No of observations	12	36	60	67
Average excess return (% p.a.) (Gross)	-0.4	3.2	2.8	2.7
Average excess return (% p.a.) (Net)	-1.3	2.3	1.9	1.8
Outperformance consistency (Gross)	58%	86%	92%	93%
Outperformance consistency (Net)	33%	78%	87%	87%

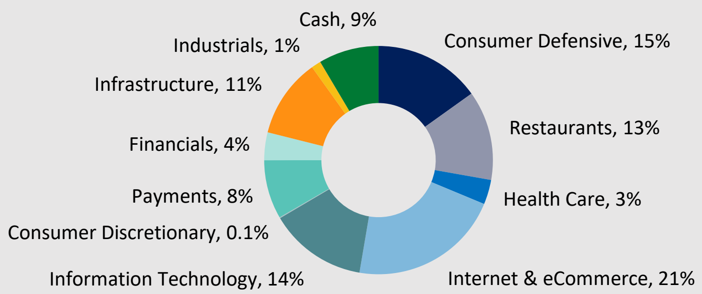
Capital Preservation Measures[4]	3 Years	5 Years	7 Years	Since Inception
Adverse Markets				
No of observations	7	13	22	24
Outperformance consistency	71%	77%	86%	88%
Average return – Strategy	-3.6%	-3.4%	-2.7%	-2.4%
Average return – Benchmark	-5.9%	-5.6%	-5.1%	-4.7%
Down Market Capture	0.6	0.6	0.5	0.5
Drawdown				
Maximum Drawdown - Strategy	-15.2%	-15.2%	-15.2%	-15.2%
Maximum Drawdown - Index	-21.1%	-21.1%	-21.1%	-21.1%

Performance[5]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	7.5	13.8	17.9	15.6	14.1	12.4
Composite (Net)	7.3	12.9	17.0	14.7	13.2	11.5
MSCI World NTR Index	7.8	21.8	21.7	15.0	13.4	12.1
Excess (Gross)	-0.3	-8.0	-3.8	0.6	0.7	0.3
MSCI World Factor Mix A-Series NTR Index	7.7	21.4	19.5	14.1	13.2	11.9
MSCI Min. Vol. NTR Index	6.9	14.3	13.0	10.7	11.3	10.0

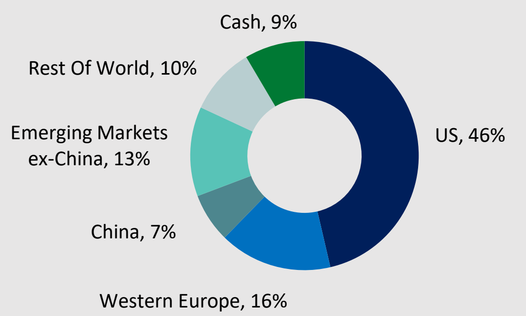
Annual Performance[5] (%)	2021	2020	2019	2018	2017	2016	2015	2014	2013*
Composite (Gross)	13.8	11.1	29.7	0.3	25.6	4.3	3.9	6.6	13.4
Composite (Net)	12.9	10.2	28.6	-0.5	24.6	3.4	3.0	5.8	12.9
MSCI World NTR Index	21.8	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	16.8
Excess (Gross)	-8.0	-4.8	2.0	9.0	3.2	-3.2	4.8	1.7	-3.4
MSCI World Factor Mix A-Series NTR Index	21.4	10.0	27.7	-6.5	21.5	7.9	1.6	7.3	14.3
MSCI Min. Vol. NTR Index	14.3	2.6	23.2	-2.0	17.3	7.5	5.2	11.4	7.9

Supplementary Statistical Measures[6]	3 Years	5 Years	7 Years	Since Inception
Beta	0.7	0.7	0.8	0.8
Tracking Error (% p.a.)	7.8%	6.7%	6.1%	5.8%
Standard Deviation – Strategy	13.5%	12.0%	11.8%	11.3%
Information Ratio	-0.5	0.1	0.1	0.1

Sector Exposure[2]



Geographical Exposure[2]



[1] Comprised of all Global Strategies.
[2] The data is based on a representative portfolio for the strategy. 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. Refer to the Important Notice below for further information.
[3] Rolling 3-year returns are calculated and rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with the outperformance consistency indicating the percentage of positive excess returns.
[4] Capital preservation measures are calculated before fees and in USD. An adverse market is defined as a negative 3-month return for the MSCI World NTR Index (USD), rolled monthly, whilst drawdown is based on rolling monthly returns.
[5] Returns are for the Global Plus Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Refer to the GIPS Disclosure section below for further information. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.
[6] Supplementary Statistical Measures Beta, Tracking Error and Information Ratio are calculated in USD using the MSCI World NTR Index.
^ Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index. Please contact MFGAM should you wish for further details on the calculation.
* Returns are only for part year.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) claims compliance with the Global Investment Performance Standards (GIPS ®)

For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management, excluding brands managed by subsidiaries operating as distinct business entities. MFG Asset Management is a wholly-owned subsidiary of the publicly listed company Magellan Financial Group Limited. MFG Asset Management is based in Sydney, Australia. Total Firm assets is defined as all assets managed by MFG Asset Management, excluding assets managed by subsidiaries operating as distinct business entities.

The Global Plus composite is a concentrated global equity strategy investing in high quality companies (typically 20-40 stocks). High quality companies are those companies that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. The investment objectives of the Global Plus strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The minimum market capitalisation for a stock to be included is US$25 billion. The composite was created in July 2013.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions are available upon request by emailing client.reporting@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

USD is the currency used to calculate performance.

Market Commentary

Global stocks surged to record highs in the December quarter as concerns abated about the economic damage of the new Omicron covid-19 variant, US companies posted stellar earnings reports, and US Congress postponed a debt-ceiling showdown and passed more stimulus. The rise occurred even though the Federal Reserve decided to reduce its asset purchases after US inflation reached a 39-year high and inflation accelerated worldwide. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information technology (+13.2%) rose the most while communication services (-1.7%) was the sector that fell. The Morgan Stanley Capital International World Index rallied 7.8% in US dollars, to be up 21.8% for 2021.

US stocks climbed as better jobless numbers and encouraging reports on earnings, especially from the banks and Big Tech. A report showed consumer prices climbed 6.8% in the 12 months to November, the most since 1982. In response, the Federal Reserve said it would accelerate its 'tapering' of monthly bond purchases. The central bank said it would prune its asset buying such that in January it would buy only US$60 billion of Treasuries and mortgage-backed securities compared with US$120 billion a month pre-tapering, while most Fed policymakers said they were prepared to raise the US cash rate three times in 2022. While reports showed an economy at full employment (the jobless rate fell to a pandemic low of 4.2% in November), the US economy expanded at a revised annualised rate of only 2.3% during the September quarter. In political news, the House of Representatives, over the unanimous opposition of Republicans, passed the US$2.2 trillion Build Back Better Act only for the centrepiece of President Joe Biden's domestic agenda to be blocked in the Democrat-controlled Senate. The House, with some Republican support, approved a US$1.2 trillion infrastructure package that had already passed the Senate. A proposal to raise the federal government's borrowing limit by US$2.5 trillion passed both chambers of Congress just before the December 15 deadline. The S&P 500 Index soared 10.6%, to be up 26.9% for 2021.

European stocks advanced on encouraging earnings results and improved economic news. A report showed the eurozone economy expanded 2.2% in the September quarter after pandemic restrictions eased, the same speed it grew in the June quarter. A report that showed eurozone inflation reached 4.9% in the 12 months to November proved no dampener after the European Central Bank indicated it would not overreact to rising prices. The Euro Stoxx 50 Index added 6.2% over the quarter and 21% over 2021.

Japan's Nikkei 225 Index lost 2.2% in the quarter, reducing 2021's gain to 4.9%, as the new covid-19 variant prompted authorities to close the national border to foreigners and a report showed the economy shrank a larger-than-expected 0.9% in the September quarter, a contraction that prompted the re-elected Liberal Democrat government to promise US$350 billion in fresh fiscal stimulus. Australia's S&P/ASX 200 Accumulation Index rose 2.1% over the quarter (and 17.2% over 2021) as iron ore prices recovered and governments eased pandemic restrictions.

China's CSI 300 Index edged up 1.5% over the quarter (to be down 5.2% for 2021) on talk the regulatory crackdown on tech stocks has peaked. A report showed the pandemic had slowed economic growth to a 12-month rate of 4.9% in the September quarter. The MSCI Emerging Markets Index shed 1.7% in US dollars over the quarter and 4.6% over the year as emerging countries were hit harder by the new variant.

Index movements are in local currency terms unless stated otherwise.

Strategy Commentary

The strategy recorded a positive return in the quarter. The biggest contributors included the investments in Microsoft, Intercontinental Exchange and PepsiCo. Microsoft surged on a 22% jump in revenue for the third quarter as its cloud business benefited from the global shift to remote work. Intercontinental Exchange rose as energy derivative volumes climbed on the back of rising energy price volatility. PepsiCo gained after the drinks and snacks company raised its forecast for full-year earnings when announcing third-quarter profit and revenue (9% 'organic' growth) numbers that beat expectations.

The biggest detractors were the investments in Alibaba Group and Meta Platforms. Alibaba dropped after the Chinese tech company announced sales figures that disappointed for a second straight quarter and lowered its fiscal outlook for 2022, which fanned concerns about slowing consumer spending in China. Still, Alibaba announced a 29% rise in revenue for the September quarter and forecast 20% to 23% growth in fiscal 2022 revenue, rather than the 27% analysts were expecting. Meta fell after the renamed Facebook warned revenues in the fourth quarter will be knocked further by Apple's privacy changes that restrict its ad-targeting, its third-quarter revenues fell short of expectations on Apple's restrictions, and the company faced a public-relations blow and possible legal difficulties after a former employee exposed issues at the social-media company and that it was losing younger audiences.

Stock contributors/detractors are based in local currency terms.

Stock Story: Intercontinental Exchange (ICE)

In 1997, Jeff Sprecher of the US, who had spent years developing power plants, decided to provide transparent pricing to the US power market. Well before electronic trading of financial securities became the norm, Sprecher paid US$1 for a tech start-up so he could build a web-based trading platform.

For three years, Sprecher and his team met oil, natural-gas and power companies to learn what people sought in a trading platform. Some of the innovations that resulted included pre-trade credit limits, counterparty credit filters and electronic trade confirmations – novelties taken for granted now. By 2000, the trading platform was set for launch. Sprecher renamed the shell company Intercontinental Exchange to highlight the trading platform's ability to cross oceans, let alone borders.

In 2001, the International Petroleum Exchange of London wanted to evolve from floor to electronic trading. At the time, the exchange was a regional one that offered oil futures contracts and had less than 25% share of the global oil futures market. Intercontinental Exchange, which promotes itself as ICE, saw an opportunity to branch into energy futures and clearing and purchased the exchange. Thanks to the ability of ICE's platform to increase price transparency, handle high volumes efficiently and lower transaction costs, the volume of oil futures traded on what is now called ICE Futures Europe swelled. A regional exchange grew into a global one.

From 2007, the year ICE listed (with the ticker ICE), the company went on a buying spree of exchanges. The company snared the New York Board of Trade, which barters commodities such as cocoa, coffee and cotton, ChemConnect, which trades chemicals, and the Winnipeg Commodity Exchange, now ICE Futures Canada that mainly trades canola. A sign of ICE's ambitions was the company's failed bid that year for the commodities-based Chicago Board of Trade.

Undaunted, the ICE takeover quest continued such that ICE, which earned US$6.6 billion in revenue in fiscal 2020, owns an exchange arm that boasts 12 global exchanges and six clearing houses that service the energy, agricultural and financial sectors. The haul includes the purchase in 2013 of the New York Stock Exchange, the world's biggest by volume. Among feats, ICE hosts nearly 66% of the world's traded oil futures contracts and is the world's leading clearer in energy and credit defaults. On top of that, ICE's exchange arm manages key global benchmark contracts. This list includes Brent oil, Euribor, natural gas, sterling short and long rates and sugar barometers of performance.

In recent years, ICE has branched out such that the exchange business, which brought in 55% of ICE revenue in fiscal 2020, is one of three divisions. The second arm, responsible for 27% of revenue in fiscal 2020, is the fixed income and data services business that sells data and technology to help investors make and execute decisions. ICE assess prices for roughly three million fixed-income securities spanning about 150 countries in 73 currencies, as well as providing advanced analytics and indexes for fixed-income markets.

ICE's other business is mortgage technology, which pulled in the remaining 18% of revenue in fiscal 2020. This arm has digitalised the mortgage process to reduce costs and increase efficiencies. The ICE mortgage business is the largest to automate the entire process, is the industry's leading platform with more than 3,000 customers, partners and investors, and the industry's only loan registry. This platform offers significant growth potential as more US mortgage originators are expected to turn to ICE's digitised offering.

ICE is a promising investment in three ways. The first is that the exchanges and other businesses possess sustainable competitive advantages that form a daunting 'moat' for the parent company – where moat is a colloquial way to say a company is protected from competition. Most of ICE's earnings are derived from trading and clearing fees from the exchange businesses and linked data. These businesses are moated because they enjoy economies of scale, network effects and industry structure that intimidate would-be competitors. Another moat for ICE is that when it comes to derivatives and listing, there are limited substitutes. The holder of benchmark contracts is favoured in negotiations, even if others are seeking to undercut on price.

A second advantage ICE enjoys is that the company is vertically integrated – it controls the execution and clearing of contracts. This enables the company to exert pricing power, attract volumes, and improve counterparty and systemic risk management.

The other advantage that makes ICE an attractive investment is the company is well managed. While ICE has a history of disrupting others, the Sprecher-led team has prevented ICE being disrupted. Management has steered the business towards attractive industry structures (derivatives exchanges), unique data sources and value-add analytics. As important, the team has largely directed ICE away from equities exchanges, where regulation and technology have upended the pricing power and volumes over the past 15 years. All up, ICE is well placed to provide compounded returns for its investors for the foreseeable future.

ICE, as do all businesses, faces risks. One is that the company's revenue is tied to trading volumes over which it has little influence. The fact that trading volumes often increase in turbulent and falling markets means that ICE is well placed to weather a market slump that falls short of a prolonged 'bear market' where trading was light. ICE's other risk is that its business is exposed to adverse changes to regulations. Moves by regulators to separate execution and clearing, and actions that might reduce trading volumes, would disrupt ICE's revenue. ICE is protected to some extent in this regard because regulators are aware that such moves against exchanges, especially ones that feature large derivatives trading, would boost trading costs, hamper innovation and, possibly, increase systemic risks.

ICE, thus, is well placed in a world where Sprecher's vision has helped electronic trading become the norm.

Sources: ICE filings and company website.