Magellan Core ESG Fund

(MANAGED FUND) (TICKER: MCSE)

A diversified global equities portfolio of 70-90 high quality global equities with ESG risk integration

PORTFOLIO MANAGER	ELISA DI MARCO	ARSN 645 514 110	APIR MGE8722AU	AS AT 30 SEPTEMBER 2024

INVESTMENT PHILOSOPHY

To invest in outstanding companies utilising Magellan's long standing investment process to identify quality companies within a framework that considers Environmental, Social and Governance risks and our proprietary low carbon framework.

OBJECTIVES

The Fund's primary investment objective is to achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified portfolio of high-quality companies. This objective incorporates the consideration of ESG factors and the application of our low carbon framework.

PORTFOLIO CONSTRUCTION

An actively managed, research driven and competitively priced portfolio of 70-90 of the world's highest quality and ESG active businesses. The Fund leverages Magellan's DNA, that is Magellan's proprietary definition of quality, ESG framework, investment process and investment team.

Typical cash and cash equivalent exposure between 0-5%.

INVESTMENT RISKS

All investments carry risk. While it is not possible to identify every risk relevant to an investment in the Fund, we have provided details of risks in the Product Disclosure Statement. You can view the PDS for the Fund on Magellan's website www.magellangroup.com.au.

ENVIRONMENTAL, SOCIAL, GOVERNANCE AND LOW CARBON FRAMEWORK

Integrated proprietary ESG risk assessment process and low carbon framework. Companies with material exposures to activities which in our view have wide ranging detrimental impacts on society are removed from the investable universe (refer to page 3 of this document for further information). We overlay our proprietary low carbon framework to deliver a portfolio which aims to limit the carbon intensity of the portfolio to one-third of the weighted average carbon intensity of the MSCI World Index, as reported by MSCI. Companies are reviewed and scored for the materiality of their exposure to environmental, social and governance (ESG) factors. The assessment is a direct input into portfolio management.

WHY QUALITY?

We aim to invest in companies that have sustained competitive advantages, which permits the company to generate returns on capital in excess of its cost of capital for a sustained period of time ("quality"). Companies with these attributes may reduce the risk of permanent capital loss. Active fundamental research and continuous monitoring are key to our determination of whether or not a company is 'quality'. We consider quality companies are more likely to withstand market cycles, and compound returns for investors.

MAGELLAN CORE ESG FUND: KEY PORTFOLIO

TICKER	FUND SIZE	NAV PER UNIT#	BUY/SELL SPREAD[1]	MANAGEMENT FEES[2]
MCSE	AUD $17.7 million	$4.6229 per unit	0.10% / 0.10%	0.51% p.a.

PERFORMANCE[3]

INCEPTION DATE 11 DECEMBER 2020

	1 MONTH (%)	3 MONTHS (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	Since Inception (% p.a.)
Magellan Core ESG Fund	-1.2	2.6	1.9	19.8	7.8	11.3
MSCI World NTR Index	-0.4	2.4	2.7	23.2	10.6	13.7
Excess	-0.8	0.2	-0.8	-3.4	-2.8	-2.4

CALENDAR YEAR RETURNS	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (part year)
Magellan Core ESG Fund	12.3	23.2	-15.5	28.1	0.4
MSCI World NTR Index	16.9	23.0	-12.2	29.3	-0.3
Excess	-4.6	0.2	-3.3	-1.2	0.7

TOP 10 HOLDINGS

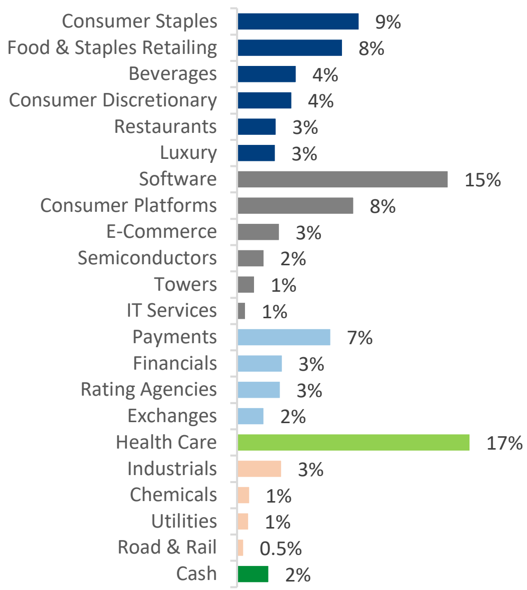
Company	Sector[4]	%
Home Depot Inc	Food & Staples Retailing	3.15
Alphabet Inc	Consumer Platforms	3.15
SAP SE	Software	3.09
Microsoft Corporation	Software	3.07
Amazon.com Inc	E-Commerce	3.05
Mastercard Inc	Payments	2.97
Netflix Inc	Consumer Platforms	2.97
Novartis AG	Health Care	2.88
Visa Inc	Payments	2.83
Eli Lilly & Company	Health Care	2.79
	TOTAL:	29.94

PERFORMANCE CHART GROWTH OF AUD $10,000[3]

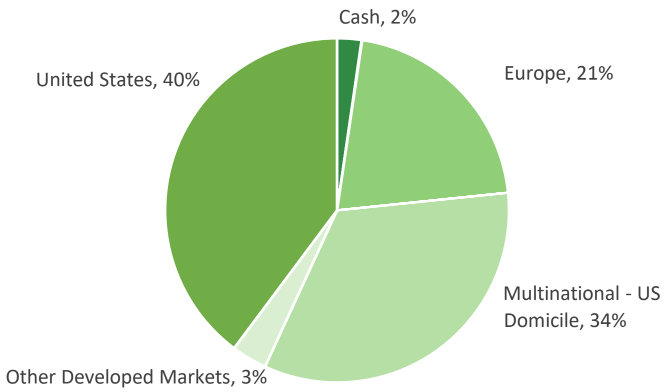
Past performance is not a reliable indicator of future performance.

[1] Only applicable to investors who apply for units directly with the Responsible Entity.
[2] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.
[3] 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). Returns denoted in AUD.
[4] Sectors are internally defined.
* MSCI World Net Total Return Index (AUD). All MSCI 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/.

PORTFOLIO SNAPSHOT[5]



GEOGRAPHIC COMPOSITION[5]



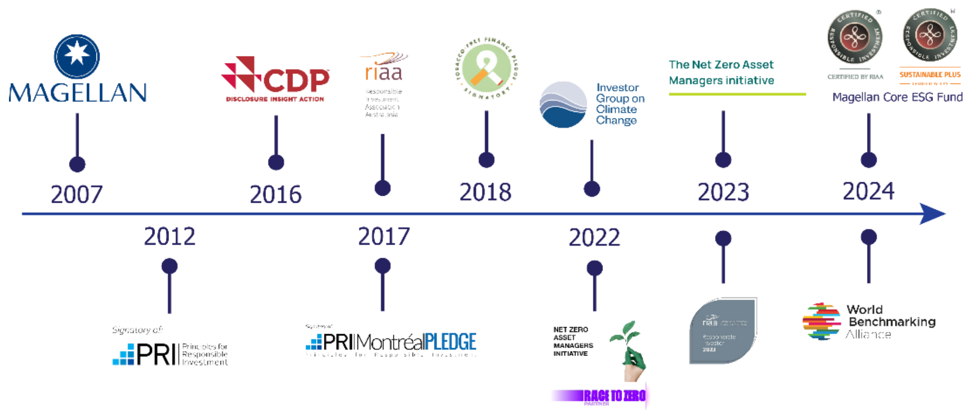
ESG AT MAGELLAN

A key part of our investment process is to consider material risks and opportunities facing companies and industries including Environmental, Social and Governance (ESG) issues. Our team diligently engages with companies on ESG risks and opportunities, with the aim of strengthening our conviction in portfolio risk management and improving investment outcomes.

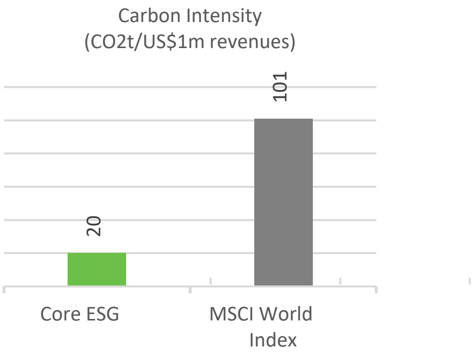
SIGNATORIES

Since inception Magellan has been focused on identifying quality companies and achieving investment objectives. Please see the "Responsible Investing" page on our website for more details on our commitments and our UNPRI scores.

Magellan is proudly a member of Responsible Investment Association Australasia (RIIA) and received a Responsible Investor designation in 2023. The Magellan Core ESG Fund has been certified by the RIAA according to the operational and disclosure practices required under the Responsible Investor Certification Program. See www.responsiblereturns.com.au for details[6].



CARBON INTENSITY*



Carbon risk metrics: As at 30 September the Carbon Intensity of the Fund was 20, being below the weighted average carbon intensity of the MSCI World Index at 101. Our low carbon framework aims to limit the carbon intensity of the portfolio to one-third of the weighted average carbon intensity of the MSCI World Index, as reported by MSCI. Please see the PDS for further detail.

[5] 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.

[6] The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

* Carbon intensity data available on a quarterly basis. Source: MSCI. Reproduced by permission. The Fund's carbon intensity score is calculated using MSCI data. In a limited number of circumstances, where data is not available or Magellan deems it appropriate, manual adjustments are made to the MSCI carbon intensity score for certain investments held by the Fund.

EXCLUSIONS AND TOLERANCE GUIDANCE

The Fund excludes companies with business involvement at or above the specified tolerance guidance in the industries, which in our view may have wide-ranging detrimental impacts on society.

Industry	Tolerance Guidance (% of total revenue)^
Adult entertainment Companies which produce or distribute pornography	5% aggregate limit for the production or distribution of pornography
Alcohol Companies which produce or distribute alcohol	5% for the production of alcohol 10% for the distribution of alcohol
Cannabis Companies which produce or distribute cannabis	5% aggregate limit for the production or distribution of cannabis
Gambling Companies involved in the direct operation or ownership of gambling facilities	5% aggregate limit for the direct operation or ownership of gambling facilities
Tobacco Companies which produce tobacco or distribute tobacco products (including e-cigarettes)	0% for the production of tobacco 5% for the distribution of tobacco
Controversial Weapons Companies which manufacture controversial armaments and weapons (including nuclear weapons)	0% for the manufacturing of controversial armaments and weapons
Conventional Weapons Companies which manufacture conventional weapons and civilian firearms Companies which distribute civilian firearms Companies which provide equipment, systems or services in direct support of conventional weapons or that provide systems with direct weapons-related applications	5% for the manufacturing of conventional weapons and civilian firearms 5% for the distribution of civilian firearms 5% for direct revenue from the distribution of equipment, systems or services in direct support of conventional weapons or from the distribution of systems with direct weapons-related applications
Fossil fuels Companies with direct revenue from the mining or extraction of fossil fuels (thermal coal, gas and oil) Companies with direct revenue from energy generation based on fossil fuels (thermal coal, gas and oil)	0% for the mining or extraction of fossil fuels (thermal coal, gas and oil) 5% for energy generation based on fossil fuels (thermal coal, gas and oil)

^Business involvement in the listed industries is determined by reference to the percentage of total revenue of the company using data provided by a third-party provider. Revenue from a business activity is assessed by the third-party provider by reference to the gross revenue from the activity where reported by the company. Where gross revenue is not reported, revenue is assessed by reference to the net revenue from the activity where reported by the company. Where no revenue from the activity is reported, the third-party provider estimates either net or gross revenue from the activity depending on publicly available information. The type of revenue used to determine business involvement in the listed industries is not specified, since reporting practices generally vary by industry and by company, and a company's reporting practices may change over time.

A SELECTION OF QUALITY PORTFOLIO HOLDINGS

The company logos above represent a selection of securities held by the Fund (in no specific order) as at 30 September 2024.

Market Commentary

The September quarter saw a wild ride in markets. The MSCI World Index gained 6.4% in USD and 2.4% in AUD. Markets globally diverged from recent trends and from each other with returns being driven by differing actions by central banks and governments. Slowing inflation gave way to interest rate cuts by many central banks while the 50bp rate cut by the Federal Reserve gave China's government room to finally deliver a much-needed stimulus package and signal more would follow. The surge in Technology stocks ended as investors became more cautious about the length of time before profits would benefit from productivity solutions unlocked by Generative Artificial Intelligence. This was reinforced by regulatory scrutiny of the Technology sector. Overall, the MSCI sectors of Utilities (+15.7%), Real Estate (+15.3%), Financials (+8.5%), Materials (+7.6%) and Industrials (+7.5%) led markets in local currency terms in the quarter given sensitivity to falling rates. In contrast, Information Technology (+0.8%) and Communication Services (+1.8%) (by far the strongest sectors in the June quarter) were lagged only by the fall in Energy (-3.8%).

Regionally we saw the S&P 500 rise 5.5%, the Nasdaq Composite rise 2.6% and the Stoxx 600 rise 2.2% while China's CSI 300 rose 16% in CNY (21% in September alone) and Japan's Nikkei 225 fell 4.2% with a bout of material volatility in August. Australia's S&P/ASX 200 gained 7.8%, helped by linkages to China and the AUD gained 3.9% against the USD.

The 50bp rate cut by the Federal Reserve was the first since 2020, and alongside US economic growth data points, saw a 55bp fall in the 10-year US Treasury yield to 3.8%. This decline came despite expectations that deficits would rise under either Harris or Trump, a situation that would place upward pressure on bond yields. The Chinese Government's stimulus appeared designed to reduce the likelihood of current challenges in the housing markets and improve weak consumer and business confidence. Towards the end of the quarter, Israel undertook preparatory attacks on Hezbollah, raising the risk of higher energy prices, inflation and interest rates, as well as slower growth. These are all risks we are monitoring closely.

Fund Commentary

The portfolio recorded a positive return for the quarter in Australian dollars. The biggest contributors included the investments in Home Depot, McDonald's and Mastercard. Home Depot's share price outperformed owing to the Fed's recent 50bp rate cut and expectations for further cuts over the next 12 months. The market expects the end of restrictive monetary policy to improve housing activity, which directly benefits home improvement retailers. McDonald's outperformed this quarter following improved restaurant traffic trends, supported by recent value menu initiatives and marketing. Improved traffic trends have increased the market's confidence in the ability of McDonald's to restore its value-oriented positioning following multiple years of inflation-driven price increases. Mastercard outperformed in the quarter driven primarily by resilient earnings, which offset fears of a weaker consumer, and the pending settlement of a long-dated litigation that weighed on the stock in the prior quarter.

The biggest detractors in the quarter were ASML, Novo Nordisk and Alphabet. ASML reported a decent second-quarter result but it was overshadowed by reports that the Biden administration is considering further tightening of semiconductor export restrictions to China. Novo underperformed due to fears of competition increasing cadence of competitor drug trial read-outs as well as ongoing concerns on pricing, reimbursement and the supply ramp. We view fears of competitor products as overdone given significant first-mover advantage in the difficult-to-scale manufacturing/supply workflows as well as Novo's pending read-outs on next-gen GLP1s. Alphabet has been affected by negative sentiment surrounding two high-profile antitrust cases, as well as continued concerns regarding the impact of Generative Artificial Intelligence on Search growth durability.

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

Developments in Sustainability

Magellan named a Responsible Leader in 2024 by the Responsible Investment Association Australasia (RIAA): RIAA announce the Responsible Investment Leaders in the annual Responsible Investment Benchmark Report 2024. Responsible Investment Leaders are asset managers who demonstrate a commitment to responsible investing; the explicit consideration of environmental, social and governance (ESG) factors in investment decision-making; strong and collaborative stewardship; and transparency in reporting activity. Responsible Investment Leader is the highest rating for asset managers.

New York City Climate Week was held in September 2024 bringing together companies, policymakers and other stakeholders. Business leaders shared their insights on sustainability initiatives and strategies for addressing climate change. A key theme was the increasing role of the private energy sector in driving climate solutions. Microsoft provided examples of how artificial intelligence (AI) is being used to optimise energy use and improve climate modelling. This is balanced with ensuring their data centres are using more renewable energy and improving efficiency.

L'Oréal commented on their commitment to innovate to reduce the carbon footprint of their products. Mastercard is focused on advancing sustainable commerce through partnership and innovation; for example, integrating a carbon calculator into its network. Geopolitical challenges, particularly between the US and China, were frequently discussed with expectations for broader export controls and sanctions likely across the renewable supply chain.

EU Deforestation laws: The European Commission has proposed to delay the Deforestation-free products regulation (EU DR) by a year to December 2025. The law was put in place in May 2023 and was expected to come into effect at the end of calendar year 2024. The law relates to products such as cattle, cocoa, coffee and palm oil sold in the EU. The onus is on the companies to demonstrate that their products are not produced on land that was deforested or degraded (from December 2020) and the commodities are produced in accordance with the laws of the country of production respecting human rights and indigenous rights. Companies with global supply chains have been preparing for this regulation; however, there are challenges to implementation and concerns around additional costs which if passed onto consumers could add to inflation or affect consumer behaviour.

UK regulator Green Claims Code: The UK's Competition and Markets Authority (CMA) announced in September a compliance guide for fashion brands and retailers when making environmental claims about their products and services. Concerns relate to claims made by companies on the use of recycled material. CMA has written to 17 brands and noted it will have a new capability to fine businesses up to 10% of worldwide revenue if they break consumer law. These penalties are part of efforts to ensure that companies are transparent and honest about their environmental practices, helping consumers make more informed choices.

Outlook

The economic balance of risks improved in the quarter as the US Federal Reserve cut interest rates by a larger-than-expected 50bp and US employment data surprised to the upside. In addition, China's economic stimulus reduced downside risks to that economy. Nonetheless, market valuations remain a little stretched and numerous uncertainties remain, including the US election, geo-political tensions, and the sustainability of US economic growth. The rules-based portfolio is designed to achieve attractive risk-adjusted returns through the cycle via the investments in high-quality companies. These companies' strong competitive advantages add to their resilience in any downturn and see them well placed to deliver strong earnings over the long term.

Stock Story – Colgate-Palmolive

(Lucina Martin – Investment Analyst)

COLGATE-PALMOLIVE

It is not an easy feat to be crowned the world's most chosen personal care brand. This brand is found in more than 50% of all global households. It demands a diligent management team, a deep understanding of the consumer and consistent investment in new products and branding.

Colgate-Palmolive has been an excellent steward of its eponymous brand, Colgate, since its humble beginnings in the early 1800s. Since then, the company has transformed the brand from a basic dental powder in a glass jar into a global brand with operations spanning more than 200 countries. Grounded in differentiated R&D and science, Colgate now has a vast assortment of oral care products to make sure you have the Instagram-perfect smile. In the global toothpaste category, which has exhibited consistent ~5% growth between 2009 and 2023, Colgate holds a 20% market share and is 2.5x larger than the next competitor. Colgate's dominance is even more profound in certain markets such as Australia and Mexico where it controls a staggering ~53% and ~77% share respectively. Representing ~50% of its $19.5b global revenue base, this highly scaled, profitable brand is the cornerstone of Colgate-Palmolive's economic moat. Toothpaste's habitual use under various economic environments also drives revenue and earnings predictability and, as a result, Colgate-Palmolive performs an important defensive role in Magellan's portfolio construction process.

As toothpaste is a 'must stock' item with immense scale, Colgate has favourable bargaining power within a consolidating retail environment. Colgate-Palmolive's leading personal and home care brands, such as Palmolive and Ajax that together represent ~30% of revenue, add further scale and bargaining power with grocery customers. Colgate's competitive moat is also protected by its differentiated R&D and large network of dentist endorsements. As a result, it faces a lower competitive threat from start-up and grocery-owned brands in developed markets. Meanwhile, in developing markets Colgate's popularity and consumer loyalty have been underpinned by its 'Bright Smiles, Bright Futures' educational program, which has engaged with more than 1.7b disadvantaged children since its launch in 1991.

Under the umbrella of Colgate-Palmolive lies another surprising asset, Hill's Pet Nutrition, which accounts for the remaining ~20% of company revenue. On the surface this may seem like an unusual pairing; however, this brand is closely aligned with Colgate-Palmolive's philosophy of scientific innovation and professional endorsement. For example, Hill's Pet Nutrition products are sold exclusively via veterinarians, certain ecommerce retailers and specialty pet retailers such as Petbarn rather than via a mass grocery retailer where its premium offering is difficult to showcase. Accounting for only a minor share of the global pet food market, Hill's still has a long runway to expand its business against a growing pet population.

Hill's is also favourably exposed to an ageing pet population via its specialised therapeutic product line, Prescription Diet, which offers pet parents best-in-class nutrition-based solutions for health conditions such as dermatitis, kidney disease and cancer.

As mentioned, the winning recipe for a high-quality, growing consumer brand is diligent management, a strong consumer understanding and a consistent investment approach. A great reminder of this concept was Colgate-Palmolive's subpar execution between 2015 and 2019 when the company had an unhealthy focus on short-term profitability and compromised investments in advertising and product innovation. Pleasingly, the current management team have identified these issues and increased advertising investments by 50% or $1b since 2018. As revenue growth has reaccelerated, management gained additional flexibility to deploy even more investment funds and stimulate further growth. The company is on track to increase advertising by 15% this year alone. The fruits of these investments have driven positive business and share price performance.

Alongside these advertising adjustments, management instilled a longer-term innovation approach across the organisation. Management quickly discontinued plans for yet another toothpaste flavour that may add little growth and instead focused on developing new products that would revolutionise the category and create a new step in a consumer's oral care regime. Supported by its vast knowledge of the consumer, the company identified a growing beauty trend and a consumer desire for more advanced teeth-whitening products. Colgate-Palmolive's R&D teams quickly innovated on whitening formulations and product packaging, and subsequently broadened the product portfolio from merely toothpaste to cost-effective, DIY whitening pens. Pleasingly, these efforts have grown market share, reignited the company's growth flywheel and generated high-margin profits.

However, the hard work does not stop here. Every day, consumers are enticed by new brands and products, and Colgate-Palmolive must stay close to their consumers and their changing needs. We have confidence that Colgate-Palmolive's network of dentists and veterinarians, close retail partnerships, cumulative consumer insights and material reinvestment capacity place it in a strong position to navigate these changes and to grow cash flows for shareholders.

Sources: Company filings, Euromonitor.