

MFG Global Equity (USD)

AS AT 31 DECEMBER 2024
PORTFOLIO MANAGERS
NIKKI THOMAS, CFA, ARVID STREIMANN, CFA AND ALAN PULLEN
INVESTMENT PHILOSOPHY

To invest in outstanding companies at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk.

OBJECTIVE

To achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.

PORTFOLIO CONSTRUCTION

High conviction (20-40 securities), high quality focus.

Portfolio construction with dynamic allocation to cash (typical exposure between 0% - 10%).

Combined Risk Ratio of 0.8[^]

MFG GLOBAL EQUITY (USD)

STRATEGY SIZE	TOTAL GLOBAL EQUITY ASSETS ¹	INCEPTION DATE
USD \$6,917.8 million	USD \$8,814.6 million	1 July 2007

USD PERFORMANCE²

	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY*
Composite (Gross)	-0.8	19.4	5.9	8.5	10.3	11.3	77%
Composite (Net)	-1.0	18.4	5.0	7.6	9.4	10.5	74%
MSCI World NTR Index (USD)*	-0.2	18.7	6.3	11.2	9.9	6.9	-
Excess (Gross)	-0.6	0.7	-0.4	-2.7	0.4	4.4	-
MSCI Min. Vol. NTR Index*	-3.9	10.9	2.4	4.7	7.3	6.2	-

CALENDAR YEAR RETURNS²

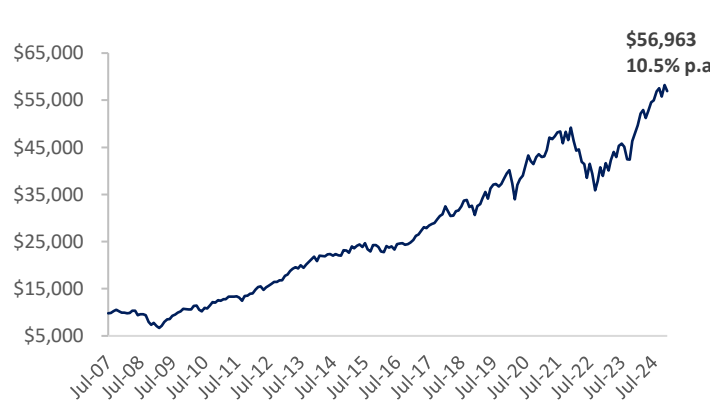
	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)
Composite (Gross)	19.4	24.6	-20.2	13.9	11.2	29.7	0.4	25.2	4.7	4.2	6.6	30.8	21.6	11.9	18.3
Composite (Net)	18.4	23.6	-20.8	13.0	10.3	28.7	-0.4	24.2	3.9	3.4	5.7	29.8	20.7	11.0	17.4
MSCI World NTR Index (USD)*	18.7	23.8	-18.1	21.8	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8
Excess (Gross)	0.7	0.8	-2.1	-7.9	-4.7	2.0	9.1	2.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5
MSCI Min. Vol. NTR Index*	10.9	7.4	-9.8	14.3	2.6	23.2	-2.0	17.3	7.5	5.2	11.4	18.6	8.1	7.3	12.0

Past performance does not predict future returns.

STRATEGY FUNDAMENTALS^{3,4}

Number of Holdings	27
Return on Equity (%)	43
P/E Ratio (1 year forward)	28
Interest Cover	17
Debt/Equity Ratio	82
Weighted Average Market Cap (USD million)	970,375
Carbon Intensity (CO ₂ t/US\$1m revenue) [#]	42

[#] The carbon intensity score is calculated using MSCI data. In a limited number of circumstances, where data is not available or MFG Asset Management deems it appropriate, manual adjustments are made to the MSCI carbon intensity.

PERFORMANCE CHART GROWTH OF USD \$10,000 (NET)²


Past performance does not predict future returns.

¹ Comprised of all Global Equity strategies.

² Returns are for the Global Equity Composite ("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. Strategy inception is 1 July 2007. 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.

³ The data is based on a representative portfolio for the Global Equity Strategy. Refer to the Glossary for further information on representative portfolio use.

⁴ Please refer to the Glossary for definitions.

[^] Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index. Please contact MFG Asset Management should you wish for further details on the calculation.

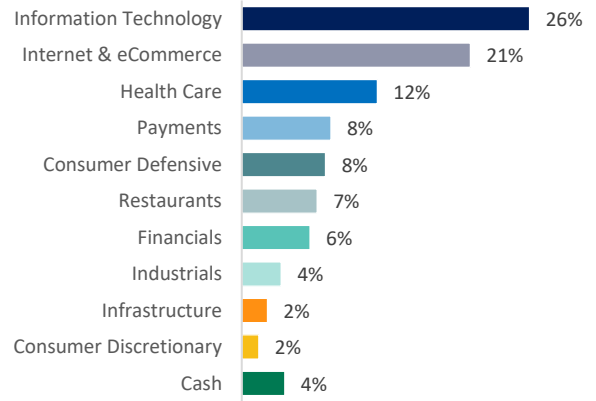
* Outperformance consistency indicates the percentage of positive excess returns against the benchmark (MSCI World NTR USD Index) for rolling 3 year returns since inception.

[†] 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.magellangroup.com.au/funds/benchmark-information/.

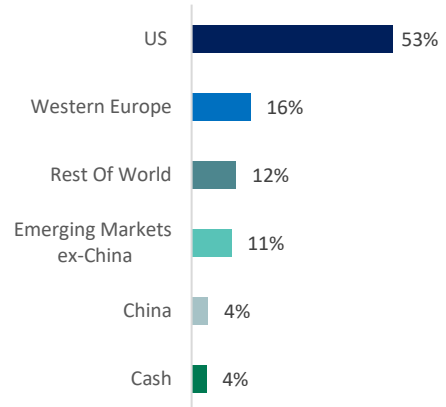
TOP 10 HOLDINGS⁵

STOCK	SECTOR ⁴	%
Amazon.com Inc	Internet & eCommerce	8.1
Microsoft Corporation	Information Technology	7.2
Alphabet Inc	Internet & eCommerce	4.8
Mastercard Inc	Payments	4.3
SAP SE	Information Technology	4.3
Apple Inc	Information Technology	4.3
Netflix Inc	Internet & eCommerce	4.1
Meta Platforms Inc	Internet & eCommerce	4.0
ASML Holding NV	Information Technology	3.9
Chipotle Mexican Grill Inc	Restaurants	3.9
TOTAL		48.9

SECTOR EXPOSURE BY SOURCE OF REVENUE⁵



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE⁵



CONTRIBUTION HIGHLIGHTS^{4,6}

1 YEAR		5 YEARS		10 YEARS	
TOP 5	CONTRIBUTION (%)	TOP 5	CONTRIBUTION (%)	TOP 5	CONTRIBUTION (%)
Amazon	3.0	Microsoft	9.3	Microsoft	24.9
Netflix	2.6	Alphabet	6.1	Alphabet	16.4
SAP	2.4	Chipotle	4.2	Visa	14.4
Trane Technologies	1.8	SAP	4.0	Apple	14.0
Chipotle	1.5	Amazon	3.6	Mastercard	11.0
BOTTOM 5	CONTRIBUTION (%)	BOTTOM 5	CONTRIBUTION (%)	BOTTOM 5	CONTRIBUTION (%)
Novo Nordisk	-1.4	Alibaba	-3.1	Kraft Heinz	-7.0
Nestlé	-0.9	US Bancorp	-1.7	Lloyds Banking	-2.2
L'Oréal	-0.5	Novo Nordisk	-1.4	CVS	-2.0
AIA Group	-0.4	Anheuser-Busch	-1.2	US Bancorp	-1.7
LVMH	-0.2	Diageo	-1.0	Anheuser-Busch	-1.5

SUPPLEMENTARY STATISTICAL MEASURES^{4,7}

	3 Years	5 Years	10 Years	Since Inception
Turnover	30.2%	20.6%	15.2%	12.0%
Beta	0.9	0.8	0.8	0.8
Tracking Error (% p.a.)	4.9%	6.6%	5.7%	6.7%
Standard Deviation - Strategy	16.4%	15.8%	13.3%	13.8%
Information Ratio	-0.3	-0.5	-0.1	0.5

⁵ The data is based on a representative portfolio for the Global Equity 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 Glossary for further information on representative portfolio use.

⁶ The contribution highlight table is actual performance data of a representative portfolio within the Global Equity Composite. Contributions are denoted in USD and are cumulative for each period. Refer to the Glossary for further information on representative portfolio use. The securities identified above do not represent all the securities purchased, sold or recommended for MFG Asset Management's clients in connection with the Global Equity Strategy. The Global Equity Strategy's total returns are available on request.

⁷ Supplementary Statistical Measures are calculated after fees in USD against the MSCI World NTR USD Index.

GLOSSARY

Beta A measure of the composite's sensitivity to market movements, with the market defined as the MSCI World NTR USD Index. The beta of the market is 1.00 by definition. A beta greater than 1.00 suggests the composite is more volatile than the market, a beta less than 1.00 indicates the composite has lower volatility than the market and a beta of 1.00 suggests the composite has the same level of volatility as the market.

Carbon Intensity A measure of the metric tonnes of CO₂ released per \$1mil USD revenue of a company. Calculated as a weighted average of all stocks in the representative portfolio.

Contribution The contribution values at the security level comprise the sum of each security's daily contribution to the return of the total portfolio multiplied by total portfolio growth over the remainder of the prescribed period (i.e. 1 year, 5 years and 10 years). The daily contribution is the movement in the security price multiplied by the security weight in the portfolio.

Debt/Equity Ratio A measure of a company's financial leverage calculated by dividing its net debt by stockholders' equity. Calculated as a weighted average of all stocks in the representative portfolio.

Information Ratio Is a risk-adjusted return measure that calculates the composite return above the benchmark (MSCI World NTR USD Index), relative to the volatility of those returns. Measured by excess return over the tracking error.

Interest Cover Current year earnings before interest and tax divided by net interest expense – a measure of ability to service debt. Calculated as a weighted average of all stocks in the representative portfolio.

P/E Ratio (1 year rolling forward) The share price divided by a forecast of earnings per share in one year. Calculated as a weighted average of all stocks in the representative portfolio.

Representative Portfolio 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.

Return on Equity A measure of a company's profitability that takes a company's annual net income divided by the book value of its shareholder equity. Calculated as a weighted average of all stocks in the representative portfolio.

Standard Deviation measures how widely individual performance returns, within the composite, are dispersed from the average or mean value.

Turnover A measure of the representative portfolio's trading activity, which is calculated by taking the lesser of purchases or sales and dividing by the average net assets of the measurement period.

Tracking Error Calculated as the standard deviation of the difference between the return of the composite and its benchmark (MSCI World NTR USD Index) and used as a measure of relative consistency of performance to the benchmark.

Weighted average market cap (USD Million) The average market capitalisation of all companies in the representative portfolio, with each company weighted according to its percent held.

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The MSCI World Index (Net) is a free-float adjusted market capitalization weighted index that is designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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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®).

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The Global Equity 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 Equity strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The composite was created in December 2011.

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.

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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.

GLOBALUSD45657

Market Commentary

Global share returns were broadly flat in the December quarter, with the MSCI World Index down 0.2% in USD. The convincing win of Donald Trump and his Republican Party in the US elections had a major impact on investment markets, with the 10-year US Treasury yield rising by 77bp to 4.58% as investors upgraded their growth, inflation and budget deficit expectations while reducing the expected number of cuts by the Federal Reserve. The best performers in the period were Consumer Discretionary (+11.0%), Communication Services (+7.8%) and Financials (+7.1%) as the US economic outlook brightened, while Materials (-10.6%), Healthcare (-9.4%) and Utilities (-5.8%) fared worst on higher interest rates and elevated government policy uncertainty.

The Japanese market performed best in the quarter, with the Nikkei 225 returning 5.3% in Yen. This was followed by the US where the broad-based S&P 500 rose 2.3%. Within the US, the tech-heavy Nasdaq Composite grew 6.3% as the growth prospects of technology companies remained bright. The worst-performing region was emerging markets, with the MSCI's USD index declining 8.0% and China's CSI 300 1.7% lower. Returns were also negative in Europe, with the STOXX Europe 600 down 2.6%, while Australia's S&P/ASX 200 Accumulation Index was off 0.8%.

The US economic data remained solid, with the jobless rate ending the quarter at 4.2% and the PCE deflator finishing the year at 2.4%, above the Fed's target of 2%. While the Fed cut their policy rate by a cumulative 50bp through the quarter, in December they signalled they did not expect to cut by as much as previously indicated. Other central banks such as the European Central Bank, Bank of Canada and Bank of England cut their policy rates to bring more accommodative monetary policy as inflation falls and economic growth is soft. Other notable developments in Europe were successful no-confidence motions against the German Chancellor and French Prime Minister. In China, the weak economic outlook saw the government announce a 10 trillion RMB (\$1.4 trillion) package focussed on strengthening local government finances, thereby reducing downside risks to the economic outlook. There was little to suggest that the Chinese Government is looking to create upside risks to economic growth.

Strategy Commentary

The strategy recorded a negative return for the quarter to December 2024. The largest detractor was Novo Nordisk, with smaller drags from HCA Healthcare, UnitedHealth, ASML and Eversource Energy. Healthcare stocks across the market struggled post the Trump election win given general unease on his cost-cutting intentions and the current huge burden of the US healthcare system. Novo's share price fell as the clinical trial results of CagriSema, a new weight loss drug, showed 22% weight loss, not 25% as anticipated. HCA was affected by investor concerns about regulatory changes affecting healthcare exchanges and subsidies, which would reduce the number of patients receiving care in its hospitals. We are less concerned about this issue given many Americans enrolled in these programs are Republican voters. UnitedHealth was hurt by talk of government cost cutting and an online backlash against insurers following the fatal shooting of its insurance division CEO, but we believe the market is overestimating the likely impact on the company's profitability.

The stocks that contributed the most this quarter were Amazon and Netflix, with smaller gains from SAP, Visa and Brookfield. Amazon gained as investors became more confident about Amazon's ability to continue to grow revenues and earnings in its online business amazon.com, while its leading cloud business AWS revealed AI progress. Netflix's share price rose on the back of further growth in its subscriber base, and the success of recent Live Events in NFL and boxing, bringing higher conviction on the long-term growth as it extends its advertising model. SAP reported a strong Q3 result that showcased momentum in cloud services businesses alongside cost restraint, which drove wider profit margins.

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

Outlook

This year, 2025, is shaping up to be an incredibly interesting year for investors. After two years of strong annual returns for our investors as global equity markets rallied strongly, both strong earnings cases and justifiable starting prices are needed for another year of strength.

At present the US economic backdrop is balanced and positive, with solid economic growth and inflation moving closer to 2%. US productivity is supportive at an estimated 2% and real wage gains, house price gains and share market appreciation are supportive of consumers, especially the wealthier cohorts. Europe's industrial heartlands are being affected by a loss of competitiveness that is slowly playing out with revenues being lost to competition elsewhere, especially China. This is seeing southern Europe emerge as relatively better placed for future growth. Japan continues to make progress on its agenda of improving returns on capital though its demographic challenges remain.

Commentators spend a lot of time extolling the 'value' of equity markets based on aggregated metrics such as prices relative to near-term earnings, but these metrics overly simplify the job for investors in finding opportunities and avoiding risks. As passive investing has come to dominate

equity market allocations, prices can become disconnected from fundamental value even more than before as these baskets of stocks see flows (in and out) based on themes and macro factors, not the underlying value of the companies themselves. Much continues to be said about the Magnificent 7 (or is it now 8?) and it is true these behemoth companies continue to dominate indices and returns. Each of these companies has the potential to deliver good shareholder returns and many have the potential to grow well ahead of competitors given scale advantages, existing economic moats, very high returns on capital and strong cash generation, though incumbency risks and rapid innovation in their core markets cannot be ignored.

The incoming US Administration and the reshaping of US policy that may result could have profound implications for performances of companies across the globe. President-elect Trump's return may also result in an uptick in equity market volatility given his communication style and tendency to sweeping statements. On the one hand, deregulation and government cost-cutting are clearly high on the agenda and broadly positive for markets and economic growth. On the other hand, what gets done, and when, on taxes, cutting immigration to the US and levying tariffs on goods bound for the US will matter for fiscal balances and inflation.

A bullish scenario could see another very good year for investors. This would see US policy interest rates head back towards 3%, 10-year yields likely rangebound or lower and housing turnover and activity pick up as mortgage rates are increasingly acceptable for those looking to own or update housing. Business investment would be supported by policy efforts to lift local production, especially for AI-related industries and associated energy needs. Capital markets should see renewed vigour in M&A and IPOs as deregulation and reduced capital buffers lift activity. A virtuous cycle then supports economic growth via jobs creation, wage expansion, higher property values and so on. AI innovation will be important in this scenario to balance labour market tightness with productivity and capital substitution.

A bearish scenario would likely be the result of unexpected US Administration policy actions that are too disruptive to industries or aggressive fiscal spending with negative implications for government debt levels driving rates and inflation higher. Other risks, from geopolitical conflict to cyber attacks, social unrest, extreme weather events or political events, elsewhere could deliver a shock amplified by an already high US fiscal deficit. A 10-year bond yield move above 5% would pressure equities. Income inequality in many parts of the world remains a problem for the balanced advancement of populations while the high US dollar will weigh on upcoming reported results of US-based multinationals.

Overall, the portfolio is well positioned for the years ahead. Our focus on high-quality companies with attractive earnings outlooks and valuations means that no matter what scenario unfolds, the risk of permanent capital loss is low, yet the portfolio will benefit from structural growth thematic occurring around the world.

Stock Story - Netflix

(Ryan Joyce, CFA – Portfolio Manager and Sector Head Financials and Technology)

NETFLIX

Netflix's operating profit increased from US\$800m in 2017 to ~US\$10b in 2024. We see the potential for this to triple to US\$30b over the next decade as streaming continues to take share of video viewership and Netflix leverages its leadership position and executes growth strategies to sustain its industry-leading scale.

Scale is critical for video streaming platforms whose largest expense is content, for which the marginal cost of viewership is close to zero. Platforms with greater scale can invest in high-budget, high-profile films and series, offer more diverse content by genre and region, and take more shots on goal in a hit-based industry where *Squid Game* and *The Tiger King* can achieve unexpected success.

Measured across revenue, unique subscribers or engagement, Netflix has 2-4x the global scale of streaming rivals¹ including Disney and Warner Bros Discovery. Netflix's scale advantage has been expanding as it continues to improve its offering and monetise password sharers while peers have lifted prices and pulled back on content and marketing spend in the pursuit of profitability. In 2024 Netflix added ~30m subscribers vs ~15m for each of Disney and Warner Bros Discovery's HBO Max. Looking forward, we expect Netflix to drive further scale through the strategic expansion of its content budget and growth in its ad-supported offering.

Netflix spends ~US\$17b a year on content, a figure we expect to grow by ~US\$1b a year. We expect a growing proportion of this budget will be allocated to content franchises, event television and local content.

Being a relative newcomer to the media industry, Netflix owns a limited amount of recognisable IP or content franchises. However, as a small proportion of Netflix's original content breaks through each year, Netflix can increase its annual spend on established IP or returning seasons of popular shows like *Bridgerton*, *Stranger Things*, *Emily in Paris* and *Night Agent* that offer proven engagement, and schedule their release to minimise subscriber churn. Netflix's fostering of IP and content franchises is also a prerequisite should it seek to operate entertainment parks in the future, a large source of profits for Disney and Universal Studios.

While not without its critics, the Tyson vs Paul boxing event garnered over 100m views globally, demonstrating Netflix's unique ability to aggregate live viewership across a large and diverse subscriber base. This unique ability is attractive to partners like sports leagues and celebrities seeking to grow their own audiences. As a result, partners are open to creating such events by carving out special packages and less focused on extracting the maximum near-term economics. For example, Netflix's NFL Christmas Gameday was a win for the NFL in terms of showcasing it to a younger and more global audience, and a win for Netflix in terms of growing mindshare with older male audiences in the US where it under indexes. We expect Netflix to invest in more win-win event television to deliver targeted subscriber growth and reduce churn.

Local content is another area where we expect to see disproportionate investment by Netflix in the years ahead. Netflix expanded into international markets well ahead of Hollywood peers and has used that head start to understand the taste of local audiences, build local content development capabilities where costs are often much lower, and establish itself as one of a handful of relevant streaming services alongside local competitors in many markets. This positioning and increasing investment will be critical to sustaining Netflix's subscriber growth and scale advantage vs peers in the years ahead given the relative maturity of English-speaking markets like the US, the UK and Australia.

Another driver of subscriber and revenue scale for Netflix is its ad-supported tier. The introduction of the lower-priced ad tier in 2023 meaningfully expanded Netflix's addressable customer base and has been a key contributor to recent subscriber growth with the ad tier accounting for ~50% of sign-ups in markets where it is available and growing to represent 10% of all subscribers. While having been a drag in 2024, Netflix's ad tier will be an important driver of per-member revenue growth in the coming years through higher engagement, better advertising capabilities and increases in ad load from a very low base.

Despite a favourable view of Netflix's long-term earnings potential as it continues to scale, there are risks to this outlook and profits rarely progress in straight lines. Key risks for Netflix include subscriber growth moderating more than expected as the tailwind from the reduction in password sharing fades, a closing of the gap by competitors due to sustained strong execution and the release of highly popular content, and the recent strengthening of the USD that affects revenue and margins.

¹Excludes YouTube, which has comparable viewership but is predominantly user-generated content and less scalable due to revenue share agreements with creators.