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 JUNE 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 INFORMATION

TICKER	FUND SIZE	NAV PER UNIT#	BUY/SELL SPREAD[1]	MANAGEMENT FEES[2]
MCSE	AUD $17.6 million	$4.5853 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	2.6	-0.7	9.5	13.4	8.4	11.3
MSCI World NTR Index	1.6	0.3	14.2	19.8	11.1	13.9
Excess	1.0	-1.0	-4.7	-6.4	-2.7	-2.6

CALENDAR YEAR RETURNS	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (part year)
Magellan Core ESG Fund	9.5	23.2	-15.5	28.1	0.4
MSCI World NTR Index	14.2	23.0	-12.2	29.3	-0.3
Excess	-4.7	0.2	-3.3	-1.2	0.7

TOP 10 HOLDINGS

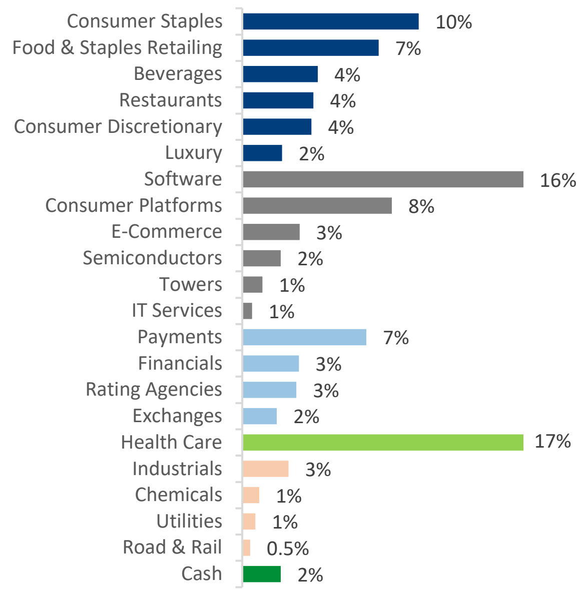
Company	Sector[4]	%
SAP SE	Software	3.14
Amazon.com Inc	E-Commerce	3.12
Netflix Inc	Consumer Platforms	3.02
Home Depot Inc	Food & Staples Retailing	3.00
Microsoft Corporation	Software	2.98
Alphabet Inc	Consumer Platforms	2.97
Eli Lilly & Company	Health Care	2.95
Novo Nordisk ADR	Health Care	2.92
Mastercard Inc	Payments	2.91
Visa Inc	Payments	2.88
	TOTAL:	29.89

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

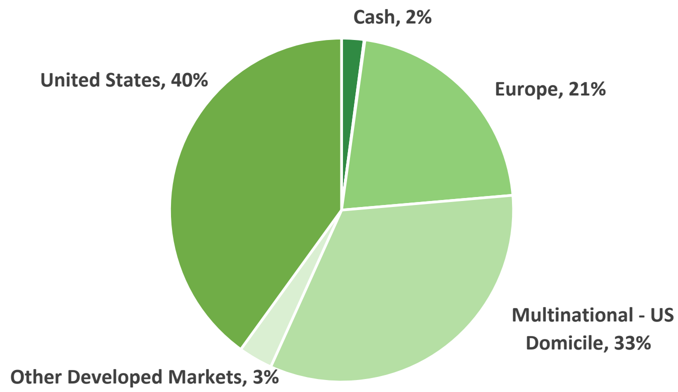
Past performance is not a reliable indicator of future performance.

[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.
NAV price is cum distribution and therefore includes the distribution of $0.0775 per unit payable on 19 July 2024.
* 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]



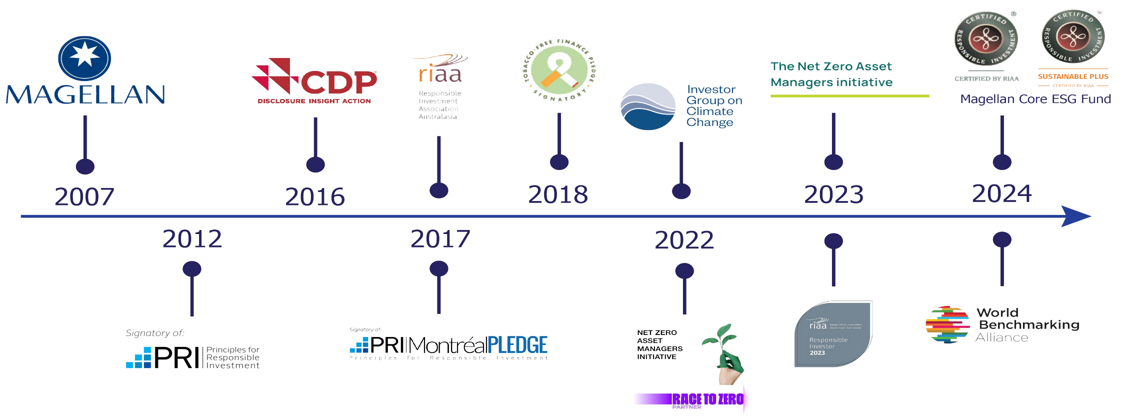
ESG AT MAGELLAN

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.

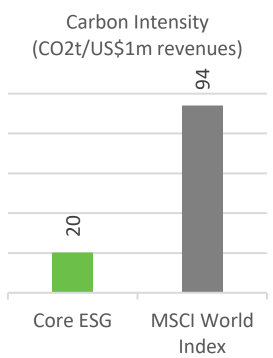
SIGNATORIES

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 RISK METRICS*



Carbon risk metrics: As at 30 June 2024 the Carbon Intensity of the Fund was 20, being below the weighted average carbon intensity of the MSCI World Index at 94.

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 following 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 June 2024.

Market Commentary

3 months

During the June quarter the MSCI World Index gained 2.6% in USD and 0.3% in AUD. Markets globally diverged with returns being driven by two distinct themes: 1) central banks and governments balancing a slowing of inflation with economic data prints and gauging the right level for interest rates, and 2) continued optimism around the building of infrastructure (chips, data centres) for Generative Artificial Intelligence. Companies that are well positioned to benefit from these new growth opportunities performed well while companies more at risk if demand growth slows too much were weaker. Consequentially, Information Technology (+11.4%) and Communication Services (+8.1%) were by far the strongest sectors in June quarter, while economic sensitives gave back some of the first quarter gains, with Materials (-3.5%), Consumer Discretionary (-2.3%), Industrials (-2.2%), Energy (-1.3%) and Financials (-0.4%) all lower.

The huge investments, an arms race, to build capacity and capability in Artificial Intelligence rolled on this quarter and share prices followed. US markets were strongest regionally, given it is the home to most major technology companies, with the Nasdaq Composite up 8.3%, followed by the S&P 500 index up 3.9%. Decoupling trends further accelerated as the US imposed tariffs on China's electric vehicles and further limited China's access to semiconductor-related equipment. The US election in November 2024 is filling much column space, but we do not see many areas of truly material policy differences. Most, including us, see Trump's more likely policies as broadly more positive for US corporates and thus equity investors.

After a 20% gain in the March quarter, Japan's Nikkei 225 index dipped 2% in the June quarter. In March the Bank of Japan raised rates from –0.1% to a range of 0.0%-0.1%, the first rise in 17 years and its first move out of negative rates in eight years. The bank hopes to protect the Yen from further devaluation and cool its above-target 2.8% inflation. Unions have successfully been bargaining for higher wages.

Europe's Euro Stoxx 600 index was broadly flat in the quarter, down by 0.2%. President Macron called a snap election in France, causing a sharp sell-off in French bonds and stocks on concerns of a right-wing government gaining control. Europe's recovery is in its early stages with the EU and UK growth turning positive and disinflation bringing inflation to 2.5% in the EU and 2% in the UK, good news for policy makers. Indeed, the ECB cut its policy rate by 25bp in June. The EU and UK unemployment rates were 6% and 4.4% respectively in May 2024. The German 10-year Bunds rose to 2.5% from lows just under 2% in December 2023.

Australia's ASX 200 was down 1.1%.

In China the CSI 300 index fell 3.3% as policy support remained modest. Economic activity was led by improving exports while the consumer remains cautious, preferring to save rather than spend. May data showed retail sales rose 3.7% year on year, exports rose 7.6% year on year and the USD-CNY remains above 7.2. The Third Plenum begins on July 15 where China's government lays out its long term growth target.

12 months

The MSCI World Index rose strongly this past year, by 20.2% in USD and 19.8% in AUD, fuelled by the significant investments being made to unlock the productivity and growth opportunities that will be enabled by AI and Generative Artificial Intelligence. At the same time, economic growth has held up well, particularly in the US, despite tight monetary policy around the world to bring inflation back down to acceptable levels of closer to 2%. This reflected an improving outlook in many cyclical sectors as both fiscal policy and strong corporate spending have driven growth.

All sectors rose in local currency terms, with Information Technology (+38.8%) and Communication Services (+38.2%) clear beneficiaries of the strengthening growth anticipated from AI, followed by Financials (+25.0%), Industrials (+17.7%) and Energy (+16.4%) revealing the expectations of cyclical recovery. The weakest sectors were Consumer Staples (+2.8%) and Utilities (+5.7%).

The S&P 500 index (USD) added 22.7% and the Nasdaq gained 28.9% in the year to end June 2024. The top five S&P 500 stocks are Microsoft, Apple, Nvidia, Alphabet and Amazon and the impressive performance has rested largely on these stocks. All are important players in driving technological innovation. The Federal Reserve has kept rates at 5.5% in seven consecutive meetings, with the last 25 basis points hike in July 2023. The consumer price index measured inflation at 3.3% in the 12 months to May, down from 4.1% a year earlier while the Core PCE (which the Fed focuses on) resumed slowing in May (after three stable months at 2.8%) hitting 2.6%. The 10-year US Treasury yield finished the year at 4.4%.

Europe's Euro Stoxx 600 index (EUR) rose 10.7% for the year. After weakening up to October 2023, markets turned as it became clearer that disinflation was taking hold and the growth slowdown would not become a significant economic downturn. Food and energy prices, which had been particularly painful for Europeans, fell back quickly while household wealth is improving modestly. Household disposable incomes are rising at ~5.8% with employee compensation rising at a similar rate. European Union and China trade relations became increasingly difficult over the past year, and this could have profound impacts on multinationals operating across both jurisdictions. Tariffs on Chinese EVs and other measures seem likely as the EU tries to derisk its economy and supply chains.

Japanese shares had another strong year, as the Nikkei 225 index advanced 19.3% in Yen (7% in USD). The Japanese share market has benefited from improved corporate governance, a weak Yen benefiting exporters (such as its car industry) and changes in regulations on investment accounts that have also boosted share purchases. In March 2023, the Tokyo Stock Exchange (TSE) requested companies to take "action to implement management that is conscious of the cost of capital and stock price". The evidence of changes is increasingly widespread and has been a material factor in boosting shareholder returns in Japan.

China's CSI 300 index fell 9.9% over the year, though has been closer to flat in the past six months. China's growth outlook has stabilised as exports are picking up to fill the gap being left by weak domestic consumption. This is tied to poor consumer confidence, as much household wealth remains tied to real estate where prices continue to fall as the market digests oversupply.

Australia's ASX 200 index (AUD) ended the year up 12.1% after a strong first half with a relatively stable currency at around 66c. Australia's economic growth has remained positive but weak, while population growth is strong (up 2.5% as last measured in December 2023 due principally to net migration) and inflation is easing, slowly. Unemployment is low and labour markets tight, so wage inflation is holding at around 4%

Fund Commentary

3 months

The portfolio recorded a negative return for the quarter in Australian dollars. The biggest contributors included the investments in Apple, Alphabet and Eli Lilly. Apple performed strongly following their annual developers conference which showcased new AI features. The news was incrementally positive from a competitive standpoint and for overall iPhone demand. Alphabet also benefited from AI announcements, with strong messaging about navigating AI in search and new AI features. Eli Lilly benefited from continued positive traction on clinical trial data readouts. Positive data contributes to incremental traction/conviction on broader reimbursement from commercial/government payers.

The biggest detractors in the quarter were Home Depot, Salesforce and Mastercard. A change in rate expectations caused home improvement retailers to underperform, including Home Depot. Salesforce underperformed with quarterly bookings normalising after two strong quarters. Mastercard was negatively affected by noise surrounding the resolution of a litigation dating back to 2005, and risk regarding slowing personal consumption expenditure.

12 months

The portfolio recorded a positive return for the year in Australian dollars. The biggest contributors included ASML, Alphabet and Costco. ASML offers an attractive high-quality exposure to the structural tailwinds of AI and automation. The outperformance was driven by these forward-looking opportunities, and ASML's unique industry positioning. Similarly to the quarter, Alphabet benefited from opportunities in AI. Costco's strong value-for-money positioning has supported solid sales growth and market share gains in a year where consumers have come under increasing pressure.

The biggest detractors in the quarter were from the consumer sector including Nike, Nestlé and McDonald's. Nike's performance over the last year has been affected by a pull-back in consumer discretionary spending and a highly promotional sportswear marketplace, strong execution by competitors in running and lifestyle categories, and a sluggish recovery in its higher-margin China business. The company is expected to provide the market with an updated outlook for its medium-term growth plans at its Investor Day in November. Nestlé's share price has underperformed due to an outage in its vitamins business caused by SAP integration issues that caused the company to lower its 2024 growth outlook. Volume growth has also remained subdued owing to consumer downtrading from inflation. Nestlé has implemented a number of strategic initiatives to ensure volume growth from 3Q24. After a few strong years of sales and menu pricing growth, McDonald's has seen slower growth this year as its lower-income consumers have become increasingly price conscious and have pulled back on restaurant spending. McDonald's has also faced some disruption in its international business relating to the conflict in the Middle East.

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

Developments in Sustainability

3 months

- **2024 proxy season** saw a continued focus on environmental issues such as climate risk and animal welfare, while important social issues such as human rights, labour standards and nutrition were raised, encouraging improvement from companies. Within these shareholder proposals, we are seeing an increase in AI-related topics such as improved oversight of misinformation and human rights impacts.
- **Energy intensity of AI:** Google reported a 13% year on year increase in greenhouse gas emissions, which contributed to a 48% increase compared to 2019. It highlights the energy-intensive nature of data centres powering AI technology. This remains a key focus for investors to ensure companies have credible climate strategies and targets to support the expansion of data centres. Google's climate targets include a 2030 goal to reduce emissions by 50% and invest in nature- and technology-based carbon removal solutions. Importantly, they have formally committed to the Science Based Targets initiative (SBTi).
- **First agricultural carbon tax:** Denmark announced an intention to introduce a levy on farm emissions in what is set to be one of the world's first carbon taxes on agriculture, helping the Nordic nation reach its 2030 climate target with backing from key industry and environmental groups. This is an important consideration for companies dependent on an agricultural supply chain, particularly if it extends to other jurisdictions.
- **US heatwave:** Nearly 100m Americans have experienced extreme temperatures in June with some major cities declaring heat emergencies. Climate scientists working with the World Weather Attribution group said heatwaves that hit Mexico, Central America and the southwestern US in June were made 35 times more likely by climate change. Companies need to consider adaptation and resilience planning in light of these physical risks from climate change.

- **Magellan Core ESG Fund has received classification as a 'Sustainable Plus'** investment product from the Responsible Investment Association of Australasia (RIAA). The classification signifies the degree to which sustainability is a consideration and binding investment criteria and that the Magellan Core ESG Fund has adopted the operational and disclosure practices required under the Responsible Investment Certification Program and meets all requirements of the Responsible Investment Standard. See www.responsiblereturns.com.au for details.

12 months

During the year, we saw extreme weather events and elevated average temperatures during the northern hemisphere summer. These events have brought climate change to the forefront of global discussions such as COP28. The annual United Nations conference on climate change, COP28, reignited pivotal discussions on global climate strategy. While nearly every country agreed to a 'transition away from fossil fuels', there was no agreement on timing or approach. The lack of global unity, however, has not deterred some nations from driving climate action at the national level. Denmark announced its intention to introduce a levy on farm emissions in what is set to be one of the world's first carbon taxes on agriculture. This is an important consideration for companies dependent on an agricultural supply chain, particularly if it extends to other jurisdictions.

We continue to monitor the risks and opportunities related to climate through engagement and industry body participation. We attended the Investor Group on Climate Change (IGCC) annual summit during the year, where discussions focused on the risks and opportunities related to climate, including regenerative agriculture and renewables, and the importance of active engagement from investors. As part of the Net Zero Asset Manager's commitment, we have focused our efforts in the last year on assessing the 'alignment' of our investee companies to net zero utilising the Net Zero Investment Framework (NZIF). This analysis undertaken by the investment team informs climate risk assessment and progress against our targets.

Another key development in the year was increased AI regulation with the EU AI Act approved by the European Parliament. This is a significant piece of regulation to mitigate the social and human rights risks of AI. During the year, Magellan signed the 2024 Investor statement on Ethical AI with the World Benchmarking Alliance and contributed to the RIAA human rights working group through the development of the RIAA AI and human rights toolkit.

While the opportunities enabled by AI are exciting, we must also consider the impact on energy consumption and emissions. Google reported a 13% year-on-year increase in greenhouse gas emissions, which contributed to a 48% increase compared to 2019. This highlights the energy-intensive nature of data centres powering AI technology. It is important for companies to have credible climate strategies and targets to support the expansion of data centres.

The 2024 proxy season saw a continued focus on these environmental issues, including climate risk. Important social issues such as human rights, labour standards and health and wellness were also raised, encouraging improvement from companies. Within these shareholder proposals, we are seeing an increase in AI-related topics such as improved oversight of misinformation and human rights impacts.

Sustainability-related financial reporting regulation continues to increase across the globe, led by the International Financial Reporting Standards (IFRS) Foundation. The foundation released two new standards, IFRS S1 and IFRS S2, which include the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain. The UK, Europe, Australia and New Zealand all provided information on country-specific reporting standards, which will require mandatory reporting for many companies. These developments should provide investors with more comparable information to integrate into risk assessment.

Finally, we are pleased to report that Magellan saw an uplift in the 2023 Principles for Responsible Investment (PRI) assessment. This is a reflection of our continued focus on enhancing ESG risk management and investment opportunities. A full copy of the assessment report is available on our website.

Portfolio Positioning

The fund's strategy is based on Magellan's forward-looking researched definition of 'quality'. This definition is actively monitored by the investment team, and an active input in the rules-based portfolio construction process. The portfolio is determined by selecting the top 80-90 companies, while allowing for diversification, from our Investment Committee-approved quality universe. Changes to portfolio holdings are driven by additions to or deletions from our approved listed of 'quality' companies and changes in our view of quality. When our view on quality strengthens, the company is ranked higher and more likely to be included in the portfolio. When our view on quality deteriorates, the company is ranked lower, and is more likely to be downweighed or excluded from the portfolio.

Over the past 12 months, Eli Lilly and Novo Nordisk were added to the portfolio following quality score reviews, which led to a higher ranking within the approved universe. Over the same period, Disney was removed from the portfolio following a review, which led to a lower quality score and hence a lower ranking within the approved universe. John Deere and Sandoz were removed from the portfolio on relative scoring grounds as new companies entered our quality universe.

Outlook

Similar to last quarter, inflation continues to slow steadily. Given this, we view that interest rates have likely peaked; however, the slow pace of inflation deceleration is unlikely to see rates lower quickly. We continue to view a soft landing as our base case, given the resilience of the labour market. We do note that there are pockets of weakness in the consumer, especially at the lower-income end, which we continue to monitor for any signs of weakness.

The fund is designed to achieve attractive risk-adjusted returns over the medium to long term. We have confidence given our definition of quality and the rules-based portfolio construction process. Magellan's definition of quality identifies companies with unique attributes that enable the business to generate attractive and sustainable returns. This definition is valuable through the cycle for several reasons: 1) quality companies tend to reinvest through the cycle, often leading to a stronger company on a relative basis when the cycle turns; 2) when defining quality, we look for favourable trends in business quality, alongside structural tailwinds, or defensive characteristics; and, 3) where uncertainty is present, greater certainty in cash flows is valuable to shareholders. We actively monitor this definition of quality, ensuring our view is forward looking.