MFG Core ESG Fund

(Managed Fund) (Ticker: MCSE)

A diversified global equities portfolio of 70-90 of the world's best companies

Fund Update: 30 June 2021

ARSN: 645 514 110

Fund Features

- A portfolio of high-quality securities that is actively constructed and rebalanced quarterly
- Integrated quality framework to identify companies with sustainable competitive advantages, and with a forward-looking view to the evolution in technology, consumer behaviour and other fundamental impacts to businesses
- Quarterly rebalanced, and continuously monitored, to ensure relevant and updated views on ESG, quality, value and risk
- Investors can buy or sell units on Chi-X like any other listed security or apply and redeem directly with the Responsible Entity

ESG Philosophy and integration

- Integrated proprietary ESG risk assessment process and low carbon framework
- Companies with material exposures to operations considered detrimental to society or the environment are removed from the universe
- Companies are reviewed and scored for the materiality of their exposure to E, S and G issues. The assessment is a direct input into portfolio management
- We overlay our proprietary low carbon framework to deliver a portfolio with a much lower carbon risk exposure than world markets

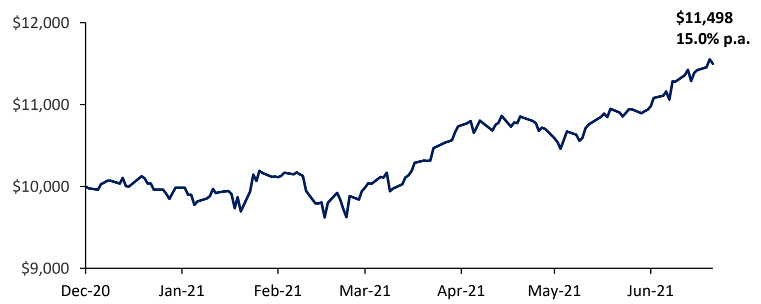
Fund Facts

Portfolio Manager	Elisa Di Marco
Structure	Global Equity Fund, A$ Unhedged
Objective	Achieve attractive risk-adjusted returns over the medium to long term, through investment in a diversified portfolio of high-quality companies, whilst reducing ESG risk exposures.
Inception Date	11 December 2020
Management Fee[1]	0.50% per annum
Buy/Sell Spread[1,2]	0.10%/0.10%
Minimum Investment[2]	AUD$10,000
Fund Size/NAV Price	AUD $13.6 million /$4.0217 per unit[3]
Distribution Frequency	Semi-annually
Chi-X Ticker	MCSE
iNAV tickers	Bloomberg: MCSE AU Equity, MCSEAUIV Index Thomson Reuters: MCSE.CHA, MCSEAUiv.P IRESS: MCSE.CXA, MCSE-AUINAV.NGIF
Carbon Intensity (CO_2t/US$1m revenues)	Fund: 28 Index**: 132

Visit www.mfgcoreseries.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms

[1]All fees are inclusive of the net effect of GST; [2]Only applicable to investors who apply for units directly with the fund; [3]NAV per unit is cum distribution and includes a distribution of $0.07 per unit distribution payable on 21 July 2021.

Performance Chart growth of AUD $10,000*



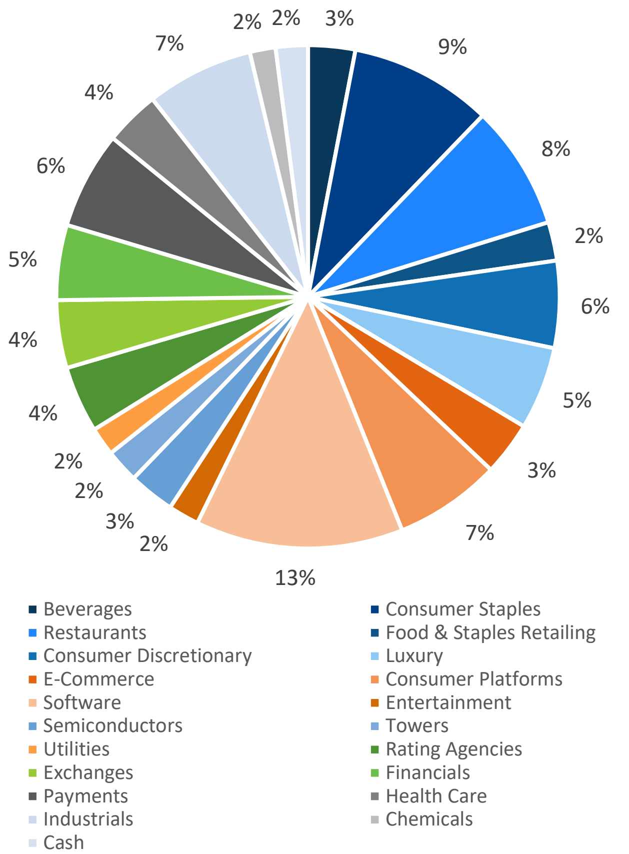
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	5.5	4.6	0.9
3 Months	11.5	9.3	2.2
6 Months	14.6	16.2	-1.6
Since Inception (p.a.)	15.0	15.9	-0.9

Top 10 Positions

Company	Sector#	%
Alibaba Group Holding Ltd	Internet & eCommerce	2.3
LVMH Moet Hennessy Louis Vuitton	Consumer Discretionary	2.3
Kering SA	Consumer Discretionary	2.2
Moody's Corporation	Financials	2.2
Alphabet Inc	Internet & eCommerce	2.2
Adobe Inc	Information Technology	2.1
Microsoft Corporation	Information Technology	2.1
S&P Global Inc	Financials	2.1
Yum! Brands Inc	Restaurants	2.1
Facebook Inc	Internet & eCommerce	2.0
	TOTAL:	21.6

Portfolio Snapshot#



* Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 11 December 2020. Returns denoted in AUD.
** Benchmark is the MSCI World NTR Index (AUD). # Sectors are internally defined. Exposures may not add to 100% due to rounding.

Market Commentary

Global stocks soared to record highs as they rose for the ninth quarter in 10 during the three months to June after investors backed that vaccines and more government spending would drive economies, dismissed an acceleration in inflation as transitory, and thus believed statements from central banks they would keep monetary policy loose. During the quarter, 10 of the 11 sectors rose in US-dollar terms. Information technology (+12%) climbed the most on healthy earnings while utilities (-0.7%) declined on concerns that longer-term bond yields might rise. The Morgan Stanley Capital International World Index surged 7.7% in US dollars and 9.3% in Australian currency.

US stocks gained as companies, especially tech ones and the banks, reported healthy earnings for the first quarter, the administration of President Joe Biden announced plans for another US$4 trillion in spending (that Congress is still to approve), consumers spent as they grew in confidence, and, by the White House count, 67% of adults have received one vaccine dose. Reports, however, on inflation provoked spasmodic caution. Consumer inflation rose 5.0% in the 12 months to May, the fastest pace since 2008, while producer prices surged 6.6% in the year to May. These reports fanned talk the US Federal Reserve might rethink its loose monetary policy. A Fed survey of its policymakers showed they had brought forward their expectations of when they would sanction a higher US cash rate. They (as represented by their median forecast) now expect to approve two increases in the cash rate from close to 0% by the end of 2023. The S&P 500 rallied 8.2%.

European stocks rose as countries relaxed pandemic restrictions as vaccine programs rolled out and the European Central Bank said it would keep aggressive monetary stimulus in place, though gains were limited by news that an ever-more debt-heavy eurozone economy is contracting. A report showed the eurozone economy shrank 0.3% in the March quarter, which followed a contraction of 0.6% in the December quarter. Another report showed government debt stood at 98% of eurozone GDP at the end of December. The Euro Stoxx 50 Index rose 3.7%.

Japan's Nikkei 225 Index defied the global trend and fell 1.3% after a resurgence in covid-19 infections extended restrictions and a report said the economy shrank 1.0% in the first quarter. China's CSI 300 Index rose 3.5% as a release showed the economy expanded a record 18.3% in the March quarter from a year earlier. Australia's S&P/ASX 200 Accumulation Index gained 8.3% after the major banks reported upbeat results, energy and material prices climbed (iron ore prices reached record highs), the federal government's budget for 2021-22 came with more stimulus, and a report showed the economy expanded 1.8% in the March quarter, to be larger than before the pandemic. The MSCI Emerging Markets Index increased 4.4% in US dollars on signs the world economy is recovering even as covid-19 ravaged emerging countries, especially India.

Fund Commentary

The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in French luxury company Kering, MSCI Inc and US software company Adobe. Kering rose thanks to the robust appeal of luxury brands through lockdowns and reopenings. MSCI jumped given on its continued investment in ESG products and strong markets. Adobe gained on impressive second-quarter results.

The biggest detractors were the investments in Hilton Worldwide Holdings, internet-based travel agency Booking Holdings and US-based utility Eversource Energy. Hilton and Booking came under pressure late in the quarter as the Delta coronavirus variant led to the reintroduction of travel restrictions in Europe and likely delayed the relaxation of restrictions in other regions. Eversource underperformed on concerns that longer-term bond yields might rise.

In relative terms, the portfolio outperformed the benchmark over the quarter. Performance was driven by strength in software, technology, luxury and diversified financials companies. These sectors are prominent in the top positions of the fund given their brand strength, industry positioning and sustainable growth characteristics. The fund has little exposure to utilities given their carbon-intense business models, which underperformed in the quarter.

Financial year performance

The MFG Core ESG fund was seeded in December 2020, soon after Joe Biden was elected the 46th president of the US and vaccines had been developed for covid-19. Over the next six months, Biden announced additional stimulus and an infrastructure plan, and the vaccine rollout reopened major economies earlier than expected. These events have been strong tailwinds for the market and the fund though the fund has slightly underperformed on a relative basis since inception.

These tailwinds were met with uncertainty as global economies navigated the path to recovery. The ebbs and flows in markets have been driven by uncertainty in the trajectory of interest rates and inflation, and uncertainty in reopenings driven by the Delta variant. Technology companies, luxury-goods companies and cyclicals more broadly have been among the winners, while traditionally more defensive companies – utilities and consumer staples – have lagged. The fund by design favours high-quality companies that have sustainable growth and are resilient to disruption. As a result, the fund has been underweight cyclicals and overweight defensives, a driver of the slight underperformance.

Uncertainty is likely in the short to medium term given the staggered recovery post-pandemic. We remain confident, however, in the portfolio positioning over the medium to long term. The structure of the fund is to invest in a diversified portfolio of high-quality companies, with lower carbon risk than the market and consideration for ESG risks and opportunities. These companies are likely winners over time, with lower exposure to the risks from decarbonisation, and higher exposure to beneficiaries from, for example, the shift to cloud, automation and e-commerce.

Index movements are in local currency.

Stock story: Deere & Co.

Deere & Co is the home of the iconic and trusted equipment manufacturing brand, John Deere. Established in the US in the 1830s by John Deere, the company has evolved from manufacturing metal shovels and ploughs to being a leading global manufacturer of agricultural, construction and forestry equipment.

Since its founding, Deere has been an innovator. In its early days, the company developed materials and tools to improve efficiency on farms. While more than 180 years have passed, and Deere's equipment portfolio has diversified and is available outside the US, Deere is still known for its innovative products and improving efficiency for customers. This strength in brand and quality of product are some of the many advantages of Deere – and why farmers stick with the company. (Recent surveys have identified that 80% of Deere agricultural customers describe themselves as brand loyal compared with only 35% to 45% of customers of Deere's competitors.)

Deere's agricultural equipment business is a key driver of its high business quality. Deere has a dominant market position, a best-in-class independent dealer network, economies of scale in manufacturing, research and development, and immense brand equity with farmers.

Deere's dealer network provides an unrivalled service offering, a feature valued by its customers. The support and superior service this network offers allows farmers to better manage the vagaries of the weather and yield uncertainty and has enabled the company to cement the loyalty of customers and its high market share in a sector where product efficacy and the timing of production cycles are mission critical.

Deere's innovative culture and dominant industry positioning have been essential to withstand disruption and maintain its market position. Deere enjoys a first-mover advantage in the development of electric agricultural equipment. We expect economies of scale and capital advantages in research and development to preserve the company's market leadership into a future in which onerous emission standards will drive a transition away from internal combustion engines.

Deere is also innovating in sustainable farming. The company has been living up to its 'green branded' agricultural equipment, increasingly being recognised in the industry for its leading advancements in this sphere. Through technology embedded into its machines, Deere is helping farmers reduce their environmental footprint through helping them to optimise output and use the land more sustainably. Deere technology monitors the soil, water and air, assisting farmers on how to better manage their crops. The technology helps farmers increase yield, save time, save on fuel, save on seed

and save on herbicides. For example, a farmer on 6,500 acres could save over 3,500 litres of herbicides, over 6,000 litres of water and avoid 400,000 kg of CO_2 emissions over the course of a production cycle. These are meaningful numbers.

Deere is also implementing programs to reuse parts, reduce waste and minimise the need to call on new resources. Additionally, Deere monitors machinery and can better time its product servicing to optimise run-time and lengthen the replacement cycle. These are just some of the many initiatives in which Deere is investing to provide benefits to their customers and enable sustainable change in the equipment machinery.

With its customer base largely within the construction and agriculture sectors, Deere is a cyclical company. Demand for Deere's agricultural equipment exhibits meaningful correlation to cash crop receipts and farmer profitability, which are functions of agricultural commodity prices, government policies, exchange rates, interest rates, economic conditions and weather. For Deere's construction equipment, demand depends on construction spending, which tends to follow local economic cycles.

Overall, Deere is a high-quality business that is adapting rapidly toward the tailwind in sustainable farming – including the harnessing of technology to preserve scarce resources and augment farming yields. Deere also provides diversification to the portfolio with exposure to the agricultural cycle vs the economic cycle.

Stock story: Adobe

For over 20 years, Adobe has been the leading provider of creative software. While most renowned for its flagship Photoshop product, Adobe offers an extensive portfolio of creative software solutions catering for a variety of traditional media forms and new-use cases such as animation, mobile app development and augmented reality. Beyond creative software, Adobe has also established itself as a leading provider of digital marketing and document management software. Adobe's seamless transition to a subscription and cloud-based business model unlocked new opportunities beyond professional creators and marketers and resulted in the company generating high-quality recurring revenues, which now comprise about 90% of Adobe's total sales.

The near-universal adoption of smartphones, proliferation of social media platforms and the increase in the time spent on digital channels have resulted in individuals consuming and demanding an ever-increasing amount of content. Concurrently, this has democratised content creation and distribution to a much broader audience including among hobbyists and non-professional creators such as YouTubers and TikTokers. These factors have driven double-digit growth for Adobe over the past decade as it has expanded its portfolio of applications to cater for creators of all proficiency levels.

By virtue of embedding itself in the curriculum of many design courses and programs around the world, Adobe's Creative Cloud has become the industry standard software suite for professional creatives and marketers and is mission-critical to creative workflows. Adobe's strong brand results in it having a highly efficient and scalable direct go-to-market strategy, with its website, Adobe.com, being the primary source of new customer acquisition.

Through acquisitions, Adobe has assembled the most comprehensive and integrated suite of digital marketing and commerce solutions, which it calls its Experience Cloud. Adobe's high mindshare among marketers and native integration with its content-creation software confer numerous advantages to Adobe's Experience Cloud. The Experience Cloud enables marketers to create, edit, promote and optimise marketing campaigns and digital experiences for consumers centrally, streamlining workflows and reducing frictions for marketers.

In digital marketing and commerce software, Adobe has formidable competitors in Microsoft, Salesforce, Shopify and SAP, but we believe the highly fragmented nature of the market and large addressable opportunity will enable all players to thrive.

Adobe was one of the pioneers of the software-as-a-service business model and has transitioned seamlessly to the cloud. The disruption of traditional advertising such as TV and print media to new formats such as online video, search and streaming should have minimal impact on Adobe, as the creative assets developed with its tools can be distributed on all digital channels.

Increased scrutiny on how organisations use and monitor customers' personal information has resulted in new privacy laws and regulations such as GDPR being adopted in many different jurisdictions, in addition to the large technology companies such as Google and Apple improving what data is collected and how it is tracked on their phones and browsers. Adobe is a net beneficiary of these changes, with the company ensuring that customers using its Digital Experience product suite to manage customer data can remain compliant with all relevant laws and data privacy sensitivities – a further comparative advantage for the business.

Adobe, like many software companies, has low carbon emissions and has little direct impact on the environment. Adobe is already carbon neutral with the target of being 100% renewable by 2035. Adobe is deeply committed to ensuring that its creative software is not misused for the creation of "Deep Fakes" and spread of misinformation. In 2019, Adobe launched the Content Authenticity Initiative with the mission to increase trust and transparency online by developing an industry-wide framework to ensure content is properly accredited to its creators. Finally, Adobe is well positioned on social and governance risk areas thanks to active employee engagement and management acting as advocates for shareholders.

In summary, we view Adobe as possessing strong moat characteristics and a beneficiary of numerous structural tailwinds as individuals consume an ever-increasing amount of content, and organisations are being required to provide consumers with highly personalised digital experiences.