MFG Global Fund - Class 1

MFG ASSET MANAGEMENT

MARKETING COMMUNICATION

AS AT 30 SEPTEMBER 2023

PORTFOLIO MANAGERS NIKKI THOMAS, CFA AND ARVID STREIMANN, CFA

INVESTMENT PHILOSOPHY

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

OBJECTIVES

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

PORTFOLIO CONSTRUCTION

A relatively concentrated portfolio of 20-40 high quality securities constructed with strict risk discipline and macroeconomic insight seeking to achieve strong risk-adjusted returns.

Cash and cash equivalents exposures between 0 – 20%.

MFG GLOBAL FUND - CLASS 1

FUND SIZE	TOTAL GLOBAL EQUITY ASSETS[1]	MANAGEMENT FEES	INCEPTION DATE
USD $139.1 million	USD $9,568.7 million	Management fee for the Fund is 0.80% per annum	8 October 2013

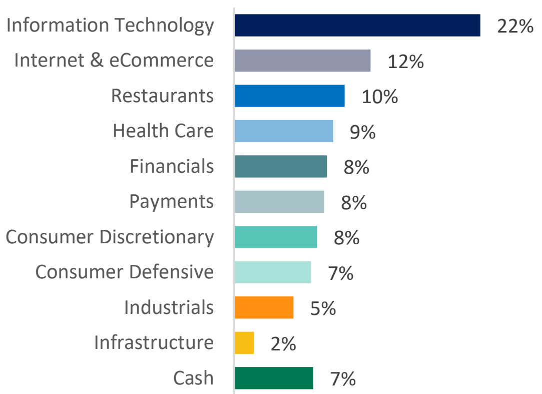
USD PERFORMANCE[#]

	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since Inception[2] (% p.a.)	OUTPERFORMANCE CONSISTENCY[3]
MFG Global Fund - Class 1 (Before Fees)	-5.7	-6.1	19.4	1.0	5.3	8.7	8.6	69%
MFG Global Fund - Class 1 (After Fees)	-5.8	-6.3	18.4	0.2	4.5	7.8	7.7	65%
MSCI World NTR Index[+]	-4.3	-3.5	22.0	8.1	7.3	9.3	8.3	

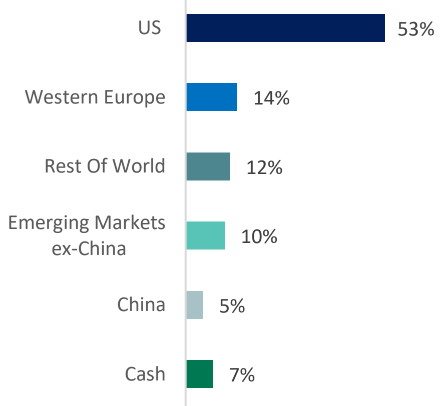
CALENDAR YEAR RETURNS	CYTD (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)*
MFG Global Fund - Class 2 (Before Fees)	9.8	-20.4	13.7	11.0	29.3	0.1	24.9	4.2	4.0	6.2	10.7
MFG Global Fund - Class 2 (After Fees)	9.2	-21.0	12.8	10.1	28.3	-0.7	23.9	3.4	3.1	5.4	10.5
MSCI World NTR Index[+]	11.1	-18.1	21.8	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	8.5

Past performance does not predict future returns.

SECTOR EXPOSURE BY SOURCE OF REVENUE[4]



GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUE[4]

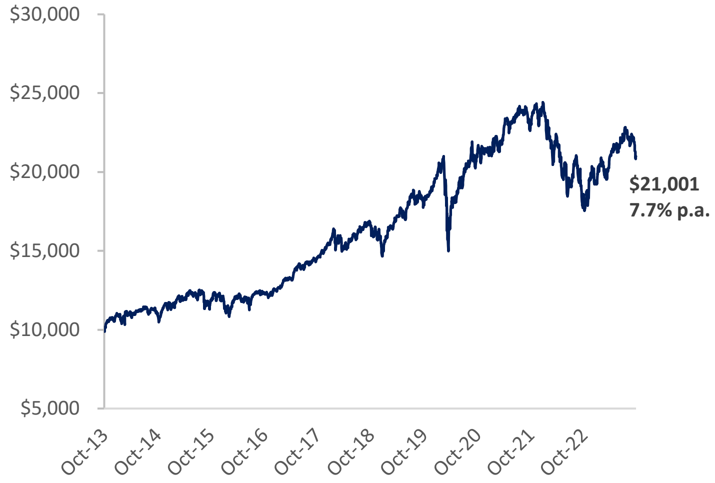


[1] Comprised of all Global Equity strategies managed by MFG Asset Management.
[2] Inception date of the Fund (Class 1) is 8 October 2013.
[3] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.
[4] Sectors are internally defined. Geographical exposure is calculated on a look through basis on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding.
[#] Shares are denominated in USD. This presents certain risks relating to currency conversion if an investor's financial activities are denominated principally in a different currency, for example, Euro. These include the risk that exchange rates may significantly change. An increase in the value of the investor's currency against USD would decrease the investor's currency equivalent value of the Net Asset Value and Net Asset Value per Share.
[+] 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.mfgam.com.au/funds/benchmark-information/
[*] Part year return.

TOP 10 HOLDINGS

STOCK	SECTOR[4]	%
Microsoft Corporation	Information Technology	6.5
Amazon.com Inc	Internet & eCommerce	6.1
UnitedHealth Group Inc	Health Care	4.5
Intuit Inc	Information Technology	4.4
MasterCard Inc	Payments	4.2
Lowe's Co Inc	Consumer Discretionary	4.2
SAP SE	Information Technology	4.2
Intercontinental Exchange Inc	Financials	4.1
Visa Inc	Payments	4.1
ASML Holding NV	Information Technology	3.9
	TOTAL:	46.2

PERFORMANCE CHART GROWTH OF USD $10,000[5]



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CAPITAL PRESERVATION MEASURES[6]

ADVERSE MARKETS	3 Years	5 Years	7 Years	Since Inception
No of observations	15	23	27	41
Outperformance consistency	33%	57%	59%	61%
Average return - Fund (%)	-4.4	-4.2	-3.8	-3.3
Average return - Index (%)	-4.2	-4.8	-4.4	-3.8
Down Market Capture	1.0	0.9	0.9	0.9
DRAWDOWN				
Maximum Drawdown - Fund (%)	-26.7	-26.7	-26.7	-26.7
Maximum Drawdown - Index (%)	-25.4	-25.4	-25.4	-25.4

[5] Growth of USD $10,000 is calculated using USD returns after fees and since inception.
[6] Capital preservation measures are calculated before fees. An adverse market is defined as a negative monthly return for the MSCI World NTR Index (USD). Down market capture shows how the fund performed relative to the index while the market is falling.

IMPORTANT INFORMATION

MFG Global Fund - Class 1 (**'Fund'**) is a sub-fund of MFG Investment Fund plc, an open-ended umbrella fund with segregated liability between sub-funds, which is incorporated in Ireland and authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (as amended). This is a marketing communication and is not a contractually binding document. Please refer to the Prospectus of MFG Investment Fund plc and the Supplement and KIID for the Fund and do not base any final investment decision on this communication alone. The Prospectus, Supplement, KIID and a summary of investor rights are available in English at www.magellangroup.com.au.

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Please see the Fund’s Prospectus for a discussion of certain risks that should be considered by you. No distribution of this document will be made in any jurisdiction where such distribution is not authorised or is unlawful. There shall be no sale of shares in any jurisdiction in which an offer, subscription or sale would be unlawful, and in any event no securities shall be sold until authorisation has been obtained from the relevant regulatory authority. The marketing of shares or the cessation of the marketing of shares in the Fund, as applicable, in any member state of the European Union shall be in accordance with the requirements of the UCITS Directive. This document does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorised or in which the person making such offer or solicitation is not qualified to do so. It is the reader's responsibility to inform themselves about the above restrictions.

MFG Asset Management will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this document including trading losses, loss of opportunity or incidental or punitive damages.

The investment program of the Fund presented herein is speculative and may involve a high degree of risk. It is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Fund may lack diversification, which can increase the risk of loss to investors. The Fund's performance may be volatile. The past performance of the Fund is not necessarily indicative of future results and no person guarantees the performance of the Fund or the amount or timing of any return from it. There can be no assurance that the Fund will achieve any targeted returns, that asset allocations will be met or that the Fund will be able to implement its investment strategy or achieve its investment objective. This document may contain ‘forward-looking statements’. Actual events or results or the actual performance of a Fund may differ materially from those reflected or contemplated in such forward-looking statements. The management fees, incentive fees and allocation and other expenses of the Fund will reduce trading profits, if any, or increase losses. The Fund will have limited liquidity, no secondary market for interests in the Fund is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Fund. In making an investment decision, you must rely on your own examination of any offering documents relating to the Fund.

An investment in shares of the Fund does not represent a direct interest in any of the underlying assets owned by the Fund which may be freely acquired and disposed of by MFG Asset Management for and on behalf of the Fund.

The Fund aims to preserve capital and reduce downside volatility risk and offers investors an opportunity to invest in a focused global equity fund, through a portfolio comprising 20 to 40 securities in high quality companies. The Fund is actively managed with investment decisions made on a fully discretionary basis. However, the portfolio is designed to have lower historical volatility than that exhibited by world equity markets, as measured against the MSCI World Index. Therefore, the Fund can be said to be managed by reference to the MSCI World Index, but as a performance reference benchmark only. The MSCI World Index 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. Further information regarding any benchmark referred to herein can be found at www.mfgam.com.au/funds/benchmark-information/. Any third-party trademarks contained herein are the property of their respective owners and MFG Asset Management claims no ownership in, nor any affiliation with, such trademarks. Any third-party trademarks that appear in this material are used for information purposes and only to identify the company names or brands of their respective owners. No affiliation, sponsorship or endorsement should be inferred from the use of these trademarks.

Market Commentary

The September quarter saw listed shares fall with the MSCI World Index declining 3.5% in USD as oil prices rose, the US dollar rose and 10-year government bond yields, used by investors as a "risk free" benchmark, rose materially. Gains were led by the Energy sector (+12.5%), as oil rose almost 30% to a peak just before month end, with Communication Services (+2.0%) and Financials (+0.4%) the other gainers. Sectors typically more sensitive to higher real rates – Utilities (-8.2%), Real Estate (-6.5%) and Information Technology (-5.8%) – led declines. In local currencies, the S&P 500 and Nasdaq Composite indices fell 3.6% and 4.1% respectively, Europe's STOXX 600 declined 2.5% and China's CSI 300 fell 4.0%. Japan's Nikkei 225 bucked the trend to rise 5.6% as the Yen fell.

This was a quarter of a meaningful and unusual shift in long-term bonds, bringing commentary comparing it to 2007. The 10-year US Treasury bond yield rose 80bp to around 4.6%, a level last seen in 2007. This large move seemed to have reflected a variety of factors and it is hard to distil which of them are transient: some are due to ongoing economic resilience despite the large monetary tightening of the past year; others are likely due to large Treasury issuance, ongoing quantitative tightening and falling holdings by foreign investors. That is, some of it is supply/demand imbalance; some is a realisation that the neutral rate may be higher than during the last 10+ years. The latter may also be behind similar moves in Europe's German Bunds and Japan's government bonds, while in markets like Australia and the UK, economic resilience is less clear.

On the inflation front, data supported the trend for falling prices in most areas, with oil the obvious exception. In the US, annual core consumer price inflation, adjusted to exclude volatile food and energy prices, was 4.3% in August, the lowest annual rate in almost two years. In the 12 months to September, German core inflation was 4.6%, down from the annual rate of 5.5% recorded a month earlier.

China dropped its zero-covid policies late in 2022 but the economic rebound has been far less than seen in most developed economies. Policy to stimulate the economy has been incremental and relatively small in scale while weak consumer and business confidence has seen a propensity to caution on spending. Political events – the disappearance and subsequent removal of the Foreign Minister and Defence Minister and the purging of Xi loyalists soon after the National People's Congress where they had been promoted by Xi – add to the uncertainty.

Fund Commentary

For the quarter, the largest contributors were the holdings in Intuit, Alphabet, Trane Technologies and UnitedHealth Group which all rose over 5% in the quarter. Intuit reported excellent quarterly results and issued FY24 guidance that highlighted the resilience of its business model and followed with an investor day showcasing how AI will be built into its product suite and the associated benefits. Alphabet reported quarter results demonstrating stable trends in advertising and continued cost control and has increasingly showed product innovation alleviating concerns of Search disruption from AI / ChatGPT. Trane Technologies delivered a robust second-quarter result and raised its full-year guidance with the ongoing strong demand in commercial HVAC a standout.

Detractors were led by LVMH, ASML, Chipotle Mexican Grill, HCA Healthcare and Apple. This serves as a strong reminder of how volatility is not risk. Three of these – HCA Healthcare, Chipotle Mexican Grill and ASML – were among our significant positive contributors in the year to June! As we highlighted then, we believe that these are superbly positioned and well-managed companies that should do well over the long term and our conviction remains high. LVMH has fallen back alongside the luxury sector as the big early 2023 uptick in the share price on expectations of a material boost from China's reopening has reset and growth of the sector normalises from elevated levels. We do anticipate strength in Chinese offshore travel and spend on luxury in coming months and for wealthy consumers to continue to spend on LVMH products, albeit at a lower level of growth than seen in recent quarters.

Near-term softness in overall semiconductor demand (notwithstanding strong AI investments) has weighed on industry sentiment. Tool makers like ASML have also been affected by Taiwan Semiconductor Manufacturing Company potentially pushing out orders for its Arizona fab due to talent shortages. We see persistent, structurally higher demand ahead though the exact timing of orders is difficult to predict. Chipotle continues to see robust sales growth and improving cost levels and is executing superbly. The uptick in store expansion, towards a 10% run rate, is still expected but perhaps a little later in 2024. HCA has benefited from improving labour costs as use of relief nurses has fallen to more normal levels and hospital utilisation for surgeries and delayed procedures has come back. We expect Apple to deliver another good result this month – recent news regarding China's government acting less favourably towards Apple bears watching.

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

Outlook

While we have long held that interest rates could prove stickier (at around 4% for US 10-year Treasuries) and inflation would come down rather slowly, we certainly did not anticipate a material further move higher for the long end of the curve. Inflation has been gradually moving lower and the large yield curve inversion, alongside other leading indicators, has suggested economic growth would continue to slow. While this has been true, economic growth has been resilient. Thus, the risk that inflation could break higher has not been removed, driving the Federal Reserve to revise upwards its projections of growth and rates, and lower for unemployment. Policymakers see GDP growth as higher in 2023 (2.1% vs 1% seen in June) and 2024 (1.5% vs 1.1%) and while it held the fed funds rate (FFR) projection at 5.6% this year, the same as in the June projection, it revised the FFR up 50bp to 5.1% in 2024, compared to 4.6% seen in June. The unemployment rate is projected lower at 3.8% (vs 4.1%) in 2023 and 4.1% (vs 4.5%) in 2024.

We sense the 80bp move up in US 10-year government bonds this quarter has come with a degree of sticker shock for most market participants. Higher long-term interest rates usually create their own headwind. US mortgage rates have jumped to over 7% and home purchases have again stalled, due not to a lack of demand but instead due to the cost of borrowing. House prices have been resilient with turnover low and supply insufficient to be a drag. This is not 2007 for houses! Many banks have large undigested, unrealised losses on their loan books they are now forced to hold to maturity. This slows the cycling of capital back into the economy (which typically slows growth) but this time it is fuelling a unique opportunity for private credit and other non-bank players to provide credit for the new projects being undertaken as the trends of decarbonisation, digitisation and deglobalisation gain momentum. US non-residential construction spend is strong and has one of the highest growth multipliers (estimated at 3x) of any industry.

The environment thus strikes us as one where the US growth slowdown seen so far begins to reaccelerate, perhaps in early 2024. The timing of such a reacceleration will determine if central banks feel compelled to add yet another rate rise into the mix. If this improved economic growth can happen, then there would be no need for rate cuts. Indeed, even as inflation trends to more acceptable levels, we expect the central banks will not want to risk restoking this by cutting rates. With the market pricing 60bp of rate cuts in 2024, the ongoing risk is these are not necessary and interest rates, across the entire yield curve, stay at higher (many of us with longer historical perspective may say 'more normal') levels.

Returning to the credit market issue of large unrealised losses, this is the financial risk vector we continue to watch. If any bank breaks rank, a repeat of March 2023 – liquidity runs and financial stress – is likely. It is difficult to see such a risk before it emerges, so we are avoiding banks and holding more cash given our capital protection goal. It is unclear if a prolonged period of higher bond yields will cause instabilities due to the large unrealised losses in the financial system. We would put this as a low-probability but high-impact event for stock markets. The resulting rapid tightening of financial conditions would make a case for slower growth, less inflationary risk and thus (the silver lining) lower rates as central banks adjust and cut rates.

We are more cautious about the growth outlook for Europe where recessionary conditions have already emerged, though if China were to provide sufficient support to improve the growth trajectory for its economy, Europe should benefit. These factors will be important for foreign exchange rates and whether the US dollar can sustain recent strength.

Stepping to the portfolio positioning, we are clearly broadly positive on growth assets and are happy to be investing in global equities. We believe that there are boundless opportunities in front of us for our superbly managed companies with strong competitive advantages to deliver exceptional earnings and cash flow growth in coming years. In the very near term, risks are elevated, and it is exceedingly difficult to judge if the jump in long-term bond yields will prove transitory or be reset to higher levels, in which case equity prices may need to adjust to a sustained higher rate environment. Strong earnings would help balance this risk and we note such moves often overshoot. The portfolio is thus tilted towards those companies we believe can keep delivering better-than-expected results through time and are yielding high cash flows from their operations even today. Innovation alongside execution excellence is at the heart of many of the companies we own – Microsoft, Amazon, Intuit, SAP, Alphabet, Netflix, Trane Technologies, UnitedHealth Group, HCA Healthcare, among a myriad of others, discussed with us the innovations that place them at the forefront of their industries.

We anticipate that some volatility in markets may accompany us over the next few months as share prices continue to adapt to the evolving interest rate environment and reshaping of economic growth. Risk is not volatility. We work diligently to assess the real risks that face our portfolio companies and will continue to hold the line on our absolute return objective. We thank you for the trust you place in us.

Stock Story: Brookfield

(James MacDonald – Investment Analyst)

Brookfield

Chances are you have come across Brookfield before. Perhaps your home is powered by a Brookfield wind and solar farm. Your phone might be connected to a Brookfield telecommunications tower or your computer to a Brookfield data centre. Your shoes may have been imported via a Brookfield port, in a shipping container leased from a Brookfield company. Your car could be one in three globally using a Brookfield-backed Clarios battery, or maybe it was purchased from a car dealership running on Brookfield-owned CDK software. Perhaps you have worked in a signature Brookfield Place office precinct in one of the major global financial centres. Brookfield might also manage some of your retirement savings on behalf of your superannuation fund.

Everywhere you look, Brookfield has a presence. The Canadian financial giant owns and operates almost US$900 billion of mostly infrastructure and real estate assets globally on behalf of its clients and shareholders. With backing from some of the world's largest pension and sovereign wealth funds, Brookfield has its eyes on opportunities to invest its ~US$80 billion cash pile in a digitalising, deglobalising and decarbonising world.

Tracing its origins to the 1899 formation of the São Paulo Tramway, Light and Power Company, a Brazilian electricity utility, Brookfield, in its various forms, has always sought to own, develop and operate critical infrastructure projects and real estate assets. After decades of investing its own capital, Brookfield opened its doors to external investors in the early 2000s, repurposing as Brookfield Asset Management, now one of the largest global alternative asset managers with real estate, infrastructure, private equity and private credit asset capabilities, the latter in partnership with Howard Mark's Oaktree.

Brookfield forecasts it will bring in US$150 billion on behalf of its clients in 2023, which it will invest across three themes underpinning its strategies. The first is the increasing digitalisation of the global economy. Brookfield has invested in data centres to power the shift to "the cloud", telecommunications towers to power the growth of 5G, and fibre-optic cables to speed up internet connections. The second theme, deglobalisation, has seen Brookfield invest in projects and businesses exposed to the reshoring of manufacturing, with recent investments including a US$15 billion contribution to fund a new Intel® semiconductor fabrication plant in Arizona and US$13 billion for Triton International, the world's largest lessor of freight containers. Last, in decarbonisation, Brookfield is putting money to work to reduce emissions, bidding for Australia's Origin Energy with a commitment to spend a further US$20 billion on new renewable energy projects in Australia.

Brookfield generates profits in several ways. Most significant are the fees earned by managing client assets at Brookfield Asset Management, which grows as more investors commit money to its investment vehicles. Historically, Brookfield invested on behalf of large pension and sovereign wealth funds in North America but now has its eyes on larger pools of capital in Asia and the Middle East, the insurance sector and among retail investors, all of which typically have low exposure to alternative investments. The second way Brookfield makes money is by owning ~US$53 billion of infrastructure, renewable and real estate assets, which typically generate steady cash flows. Last, in recent years, it has built a North American insurance business focused on annuity-life products, known as Brookfield Reinsurance. These three earnings streams, housed with Brookfield Corporation (BN:NYSE, BN:TSX), generate consistent cash flow, which is then redeployed back into opportunities to continue the compounding. Key to it all is a long track record of exceptional investment performance for clients and shareholders.

Now, over a century since Brookfield began and the future remains bright. The expertise it has built from owning and operating hundreds of businesses is in high demand as the world tackles problems from climate change to inflation and rising interest rates. With a network of businesses, global banking relationships and deep pools of flexible capital, Brookfield has positioned itself as a partner of choice for those in need of capital – and there are plenty.

Source: Brookfield, Sentieo, Magellan