MFG Core International Fund

(Managed Fund) (Ticker: MCSG)

A low-cost diversified global equity portfolio of 70-90 of the world's best companies

Fund Update: 30 September 2021

MFG CORE SERIES

ARSN: 645 515 082
APIR: MGE3851AU

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 on businesses
- Quarterly rebalanced, and continuously monitored, to ensure relevant and updated views on quality, value and risk
- Investors can buy or sell units on the Chi-X securities exchange like any other listed security or apply and redeem directly with the Responsible Entity

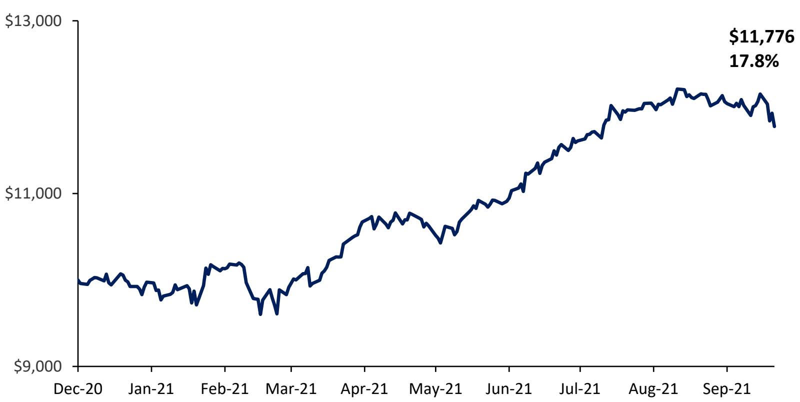
Fund Facts

Portfolio Manager	Vihari Ross	
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	
Inception Date[1]	11 December 2020	
Management Fee[2]	0.50% per annum	
Buy/Sell Spread[2,3]	0.10%/0.10%	
Minimum Investment[3]	AUD$10,000	
Fund Size/NAV Price	AUD $16.6 million / $4.015 per unit	
Distribution Frequency	Semi-annually	
Chi-X Ticker	MCSG	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSG AU Equity)	MCSGAUIV	MCSGAUIV Index
Refinitive (MCSG.CHA)	MCSGAUDINAV=SOLA	MCSGAUiv.P
IRESS (MCSG.CXA)	MCSGAUDINAV	MCSG-AUINAV.NGIF

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

[1]The inception date represents the first date the fund was offered to retail investors;
[2]All fees are inclusive of the net effect of GST;
[3]Only applicable to investors who apply for units directly with the Responsible Entity.

Performance Chart growth of AUD $10,000*



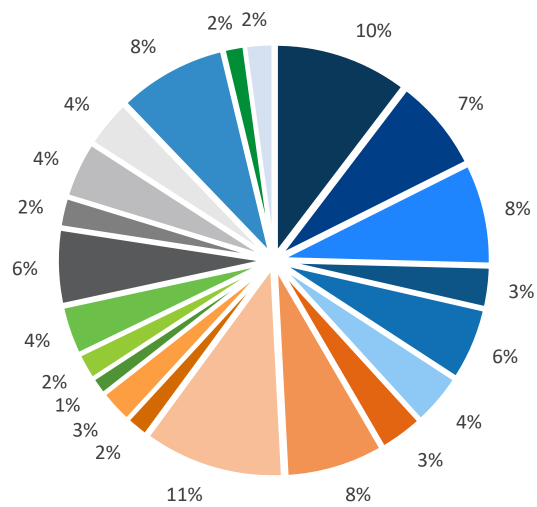
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-3.1	-3.0	-0.1
3 Months	2.9	3.9	-1.0
6 Months	14.7	13.6	1.1
Since Inception	17.8	20.4	-2.6

Top 10 Positions

Company	Sector#	%
Alphabet Inc	Consumer Platforms	2.4
Heineken NV	Beverages	2.3
Facebook Inc	Consumer Platforms	2.3
CME Group Inc	Exchanges	2.2
Kweichow Moutai Company Ltd	Beverages	2.1
LVMH Moet Hennessy Louis Vuitton	Luxury	2.0
Starbucks Corporation	Restaurants	2.0
McDonald's Corporation	Restaurants	2.0
Home Depot Inc	Food & Staples Retail	2.0
Microsoft Corporation	Software	2.0
	TOTAL:	21.3

Portfolio Snapshot#



- Beverages
- Consumer Staples
- Restaurants
- Food & Staples Retailing
- Consumer Discretionary
- Luxury
- E-Commerce
- Consumer Platforms
- Software
- Entertainment
- Semiconductors
- Towers
- Utilities
- Rating Agencies
- Exchanges
- Financials
- Payments
- Health Care
- Industrials
- Chemicals
- Cash

* 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 ended the September quarter almost unchanged, to end a run of nine rising quarters in 10. Stocks reached record highs over the first two months of the quarter after the Federal Reserve said it wouldn't overreact to higher inflation readings, US companies delivered better-than-expected earnings reports for the second quarter, and the eurozone and Japanese economies returned to growth. But these gains eroded in September after inflation concerns grew, rising interest rates reduced the premium on future profits, Congress failed to lift the US debt ceiling or pass more stimulus, worries emerged about China's economy, energy prices soared in Europe and covid-19 infections rose worldwide. During the quarter, seven of the 11 sectors fell in US-dollar terms. Materials (-5.0%) fell the most on China concerns while financials (+2.1%) rose most as higher interest rates helped bank margins. The Morgan Stanley Capital International World Index fell 0.01% in US dollars and gained 3.9% in Australian currency.

US stocks edged up as investors baked in expectations that monetary policy would stay loose for a while yet. In a key speech in August, Fed chairman Jerome Powell emphasised that rate increases were a long way off and the central bank was conscious of the economic hit stemming from surging delta cases. In September, however, Powell said inflation might last longer than thought and that while the central bank is unlikely to hike rates anytime soon it might announce plans to taper "soon". On the fiscal side, the House of Representatives failed to pass President Joe Biden's US$4.5 trillion agenda as Democrats squabbled though Congress passed a measure that kept the US government funded until December 3. Republicans in the Senate blocked moves to raise the US debt ceiling and thus kept alive the possibility the US could default, insisting Democrats had the numbers to lift the ceiling through the budget-reconciliation process. A boost for stocks was that almost 90% of companies beat expectations for the second quarter, the highest percentage of 'beats' since Refinitiv began keeping such records in 1994. Backing the Fed's view, investors regarded reports that showed consumer prices rising at a pace of about 5.3% in the 12 months to August as most likely driven by temporary supply constraints. The S&P 500 Index added 0.2%.

European stocks fell as German inflation notched a 29-year high when it reached 4.1% in the 12 months to September (while eurozone inflation stood at 3.0% in the 12 months to August), business confidence dropped and a fresh wave of covid-19 infections threatened. In better economic news, a report showed the euro area's economy expanded a revised 2.2% in the June quarter, after shrinking 0.3% in the previous three months. In political news, Germany's left-leaning Social Democrats won the greatest voting share in the general election and looked to be in the stronger position to form a coalition government with party leader Olaf Scholz as chancellor. The Euro Stoxx 50 Index eased 0.4%.

Japan's Nikkei 225 Index added 2.3% after the economy expanded a faster-than-expected 0.5% in the second quarter, after contracting in the previous three months, as Fumio Kishida became prime minister after Yoshihide Suga quit unexpectedly. China's CSI 300 Index slumped 6.8% as property developer Evergrande threatened to default, the delta variant spread, key indicators showed the economy is slowing, producer prices reached their highest since 2008, and regulators homed in on technology companies. Australia's S&P/ASX 200 Accumulation Index rose 1.7% as companies reported healthy earnings for the period to June 30 and an end loomed for the Melbourne and Sydney lockdowns. The MSCI Emerging Markets Index dived 8.8% in US dollars as China's economy slowed and Brazil's central bank raised the key rate to 6.25% from 2% at the start of the year and signalled another increase of 100 basis points in October to slow surging inflation.

Index movements are in local currency terms.

Fund Commentary

The portfolio recorded a positive return for the quarter. The biggest contributors were the investments in Alphabet, MSCI and Costco Wholesale. Alphabet surged after the parent of Google posted a higher-than-expected profit of US$21.7 billion in the June quarter after online advertising rebounded. MSCI rallied on a strong quarterly result where resilient markets, strong inflows and margin expansion were the highlights. Costco's quarterly results exceeded market expectations as revenues, tax and margin improvement contributed.

The biggest detractors were the investments in Alibaba Group and Tencent Holdings of China and Kering of France. Alibaba dropped after Chinese authorities cracked down on tech with a focus on antitrust and security issues. Tencent slumped amid this crackdown that restricts gaming by children and saw the cyber-regulator fine the company for sexually suggestive content while antitrust authorities fined Tencent for unfair practices and ordered the company to end exclusive music-licensing deals. Kering, which owns Gucci and other luxury labels, slid as doubts about China's economy undermined luxury-goods companies dependent on China's expanding middle and upper classes for sales.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Stock story: RELX Group

RELX

Big data is essential for operating a successful business. From helping insurers to predict risk, scientists develop new medical breakthroughs, and businesses target consumer groups and prevent online malfeasance, the use of data and analytics coupled with improved technological capabilities is a differentiating factor to success.

The UK-based RELX Group fulfils this need. The company renamed from Reed Elsevier is a leading provider of academic journals and platforms (Elsevier, which has over 2,650 titles on its ScienceDirect platform including *The Lancet*), database tools (Reaxys, which supports early-stage drug development), insurance decision tools, fraud analytics and leading legal electronic reference and decision tools (LexisNexis).

RELX, which describes its purpose as enabling its customers to make better decisions, get better results and be more productive, has customers in more than 180 countries in the education, medical, insurance, financial services and legal industries.

RELX's global reach can hide how competitive is the data and analytics industry. The barriers to entry are lower today compared with a decade ago, given improvements in technology. What hasn't changed, however, is the value of unique and rich data sets. In fact, one could say that when these data sets are combined with talented data scientists, technology advancements (natural language processing and machine learning) and strong product reach, the value is enhanced for customers and providers alike.

RELX combines these capabilities in providing customers with digestible data and analytics as well as tools to improve productivity and business outcomes. RELX's LexisAdvance online legal research tool, for example, allows users to enter a natural language question. The tool curates and delivers relevant answers, which results in faster answers and fewer searches of the 16 million case law legal decisions and 91 million statutes, regulations, and legislative documents in the US. This assists lawyers to develop their cases more efficiently while tapping into a comprehensive vein of relevant data.

RELX's larger divisions (Scientific, Technical and Medical; Risk and Business Analytics; and Legal) are the key drivers of business quality. These divisions are network businesses that have resulted in an oligopolistic industry structure for key division products. The divisions have elevated switching costs, economies of scale, deep customer and supplier relationships and trusted brands.

What does this look like, say, for RELX's largest division, Scientific, Technical and Medical?

RELX has a leading position in its primary research business in terms of journal title quality, title awareness and distribution. That is, RELX owns numerous journal titles, including *The Lancet* and *Cell* in which researchers strive to be published. The primary research business is a network business, as authors and readers benefit from improved circulation and the quality of the publication. The virtuous cycle is intensified by the academic need to publish. (Universities require professors to publish to retain tenure. Being published in higher-quality publications can lead to improved salaries and greater funding.) Furthermore, in medical research, publication is a key method to progress new techniques. It is difficult to replicate the brand awareness and distribution that RELX has created.

RELX operates in largely established industries such as education and insurance. The company's industry positioning and history of innovation have been critical to offsetting disruptive forces to date. RELX, for example, has successfully transitioned from a print business of magazines and journals to a business that generates 87% of revenue from electronic means and with a user base highly reliant on its written and quantitative data sets. RELX is always navigating disruptive threats including the risk of reduced government and corporate spending on research, uncertainty in primary research pricing structures, increased use and acceptance of non-peer-reviewed publications, and improved technology that provides competing analytical tools. These threats aren't new, and we view that RELX are well positioned to withstand them.

The materiality of ESG risks and opportunities differs by sub-industry. ESG risks are typically lower, for example, in the data and analytics industry. Data security is a typical key risk for the industry. Because RELX has less-sensitive data (highly sensitive data includes personal identifiable data), it's less likely to be targeted. RELX, however, doesn't ignore the risk. It prioritises cyber security and data privacy, as such steps are critical to business continuity and brand. Labour management is another key industry risk. Maintaining talent can be challenging in technology-focused roles, given the high demand. RELX prioritises culture, diversity, and inclusion, which we view as key facets for successful team management.

Overall, RELX is a high-quality business that has a unique growth and risk profile. RELX stands to benefit from the long-term growth in R&D by governments, academic institutions and companies while displaying defensive characteristics, given the high level of subscription revenues and the research-focused clients who rely upon the service and are less sensitive to economic circumstances.

Stock story: Heineken

TRADE MARK Heineken®

Founded in 1864 in Amsterdam, Heineken is the world's second-largest brewer. Founding family members remain key stakeholders in the business, providing the company with a long-term investment horizon that is well aligned with minority shareholders. This stewardship has boded well for Heineken's international expansion strategy over the past 40 years that culminated in the acquisitions of Scottish & Newcastle (2008), FEMSA Cerveza (2010) and Asia Pacific Breweries (2012). These added brands such as Strongbow, Sol and Tiger to the portfolio and established for Heineken a strong presence in Indochina and Latin America amid a backdrop of rapid industry consolidation globally. Today, Heineken produces over 300 beer, cider and ready-to-drink brands retailing in more than 190 countries. The company accounts for about 13% of global beer market volume and an estimated 11% of global beer profits.

The beer industry benefits from a favourable industry structure as most markets are effective duopolies or oligopolies. While the industry is highly competitive, brewers tend to compete on brand, functionality, quality and marketing rather than price. In fact, during periods of above-average inflation, brewers have demonstrated strong pricing power with limited declines in volume growth. Heineken's durable economic moat is further strengthened by advantaged access to distribution in key markets and economies of scale at large brewing sites.

A bonus is that Heineken's portfolio of brands is benefiting from shifts in consumer demand. Consumers across the world are drinking better due to rising incomes, aspirational consumption trends and a desire for quality. They are also increasingly health and wellness conscious, preferring brands with a natural image and ingredients, or lower alcohol and calorie content. Heineken is favourably positioned for these premiumisation and consumer preference shifts as more than 40% of the company's revenue is from brands that retail for more than the average pint. Heineken's latest brands offer diversity ranging from zero alcohol to seltzers and ready-to-drink cocktails. In addition, the flagship Heineken-branded beers comprise nearly 20% of revenues; growth over the past four years was more than double that of the rest of the portfolio. This portfolio exposure contributes favourably to profits as the company grows.

A few macroeconomic and social risks could pose a challenge to Heineken. With more than 50% of revenue generated from emerging markets, the company is exposed to volatile sources of economic growth. Furthermore, the covid-19 pandemic created a challenging operating environment for global brewers. Currency devaluations in Latin America, the closure of bars, pubs and restaurants globally and, in some cases, bans on the sale of alcohol, as well as rising input costs for key ingredients have and still pose short-term challenges to earnings. In response, Heineken launched a large cost-savings program to eliminate two billion euros of costs throughout its more than 80 operating companies. By removing more than 10% of its total costs, the brewer hopes to restore margins to pre-covid-19 levels by 2023 and position the business to benefit profitably as sales recover. Overall, Heineken provides a high-quality portfolio of brands and offers attractive reopening exposure for when the world reopens and trade rebound.