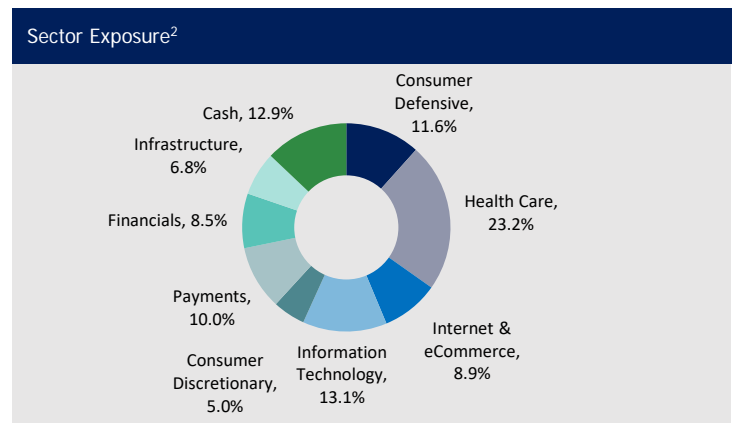


# MFG US Low Carbon (USD)

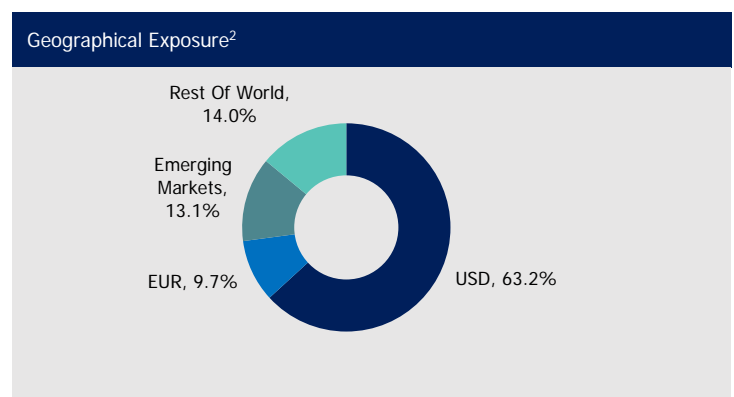
Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets <sup>1</sup>
Ted Alexander	1 January 2017	USD \$43.6 million	USD \$33,692.4 million

Objective	Approach
Capital preservation in adverse markets	High conviction (30-50 securities), high quality focus, low turnover
Attractive absolute risk-adjusted returns through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8 <sup>^</sup>
Deliver carbon intensity less than 1/3 of S&P500	Integrated ESG with proprietary, multi-dimensional carbon emissions management

Top 10 Holdings <sup>2</sup>	Sector	%
Apple Inc	Information Technology	4.7
Alphabet Inc	Internet & eCommerce	4.5
Visa Inc	Payments	4.2
CVS Health Corp	Health Care	3.5
HCA Holdings Inc	Health Care	3.5
McDonald's Corp	Consumer Defensive	3.1
Bristol-Myers Squibb Co	Health Care	3.0
AON PLC	Financials	2.9
Facebook Inc-A	Internet & eCommerce	2.8
Johnson & Johnson	Health Care	2.8
TOTAL:		35.0



Strategy Fundamentals <sup>2</sup>	Strategy	Index
Number of Holdings	36	505
Carbon Intensity <sup>#</sup>	28.4	197.7
Return on Equity	31	18
P/E Ratio (1 year forward)	18.0	18.0
Interest Cover	12	11
Debt/Equity Ratio	74	54
Active Share	75	n/a
Weighted Average Market Cap (USD million)	179,148	n/a



Cumulative Performance <sup>3</sup>	3 Months (%)	Since Inception (% p.a.)
<b>Composite (Gross)</b>	<b>4.2</b>	<b>14.4</b>
Composite (Net)	4.0	13.7
S&P 500 NTR Index	4.3	13.7
Excess (Gross)	-0.1	0.7

Annual Performance <sup>3</sup>	CYTD (%)
<b>Composite (Gross)</b>	<b>14.4</b>
Composite (Net)	13.7
S&P500 Net TR Index	13.7
Excess (Gross)	0.7

1 Comprised of all Global Strategies.

2 The data is based on a representative portfolio for the strategy. Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. The Index is the S&P500 Net TR Index. Refer to the end of the document for further information.

3 Returns are for the US Low Carbon Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Refer to the GIPS Disclosure section below for further information. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.

4 The Fundamentals are based on a representative portfolio for the strategy. Refer to the end of the document for further information. The Index is the S&P500 Net TR Index.

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

\* Returns are only for part year.

# Carbon intensity measured in CO<sub>2</sub>e tonnes per \$US million in revenue. MSCI World Index carbon intensity level updated annually as at 30 June.

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The S&P 500 TR Index is a float adjusted market capitalization weighted index that is designed to measure the equity performance of the top 500 companies in the United States. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management.

The US Low Carbon composite is a concentrated global equity strategy investing in high quality companies (typically 30-50 stocks), domiciled in the United States, with an integrated low carbon overlay. High quality companies are those companies that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. The investment objectives of the US Low Carbon strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss with an integrated ESG strategy with meaningfully lower carbon intensity than broader equity markets. The composite was created in January 2017.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing data@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

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## Market Commentary

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US stocks set record highs as they rose for an eighth straight quarter in the September quarter after S&P 500 companies posted better-than-expected earnings for the second quarter, a report showed US economic growth had accelerated to a two-year high and the Federal Reserve reiterated that monetary policy would likely only be tightened gradually.

On the company side, 73% of S&P 500 companies reported 'positive' earnings-per-share surprises for the second quarter while 'blended earnings growth' reached 10.3%, according to FactSet, as the tech giants shone. FactSet's final tally showed a record number of 43 companies issued positive earnings-per-share guidance for the third quarter, well above the five-year average of 27.

On economic news, the Fed, as expected, said it would allow US\$10 billion of Treasury bonds and mortgage-backed securities to mature each month without reinvesting the principal, core inflation rose 0.2% in August, the strongest gain in five years (though it's still at tame levels), the US economy expanded at an annualised rate of 3.1% over the three months to June, while the jobless rate stayed around 16-year lows.

## Strategy Commentary

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The portfolio recorded a positive return in the quarter. At a stock level, the best performers included investments in Bristol-Myer Squibb, Facebook, Visa and Mastercard. Bristol-Myer after second-quarter earnings beat expectations and the pharmaceutical company boosted the lower end of its earnings-per-share forecast for the year. Facebook rose after the social-platform operator posted second-quarter earnings that beat expectations. Engagement on the platform has surpassed two billion people and the monetisation of this engagement was shown by the 49% growth in ad spend, while the company highlighted the opportunity to extract revenue from its chat platforms, Messenger and WhatsApp. Visa rose after its earnings topped analyst expectations for the third straight quarter, aided by outperformance of Visa Europe relative to the expectations held at the time of the acquisition. Mastercard rallied after second-quarter revenue hit a record as volumes and transactions on its network rose.

Stocks that lagged included investments in HCA Healthcare, Kimberly-Clark, Nike and Oracle. HCA fell amid uncertainty as to whether or not the ACA repeal bill would be passed given expiration of the budget reconciliation in the month of September. Kimberly-Clark tumbled after the consumer health and hygiene company said earnings per share for the year would come in at the lower end of the previously announced range of US\$6.20 to US\$6.35. Nike fell on concerns the Oregon-based company is losing market share to Adidas of Germany. Oracle slid after the company said revenue growth from cloud products would slow in the upcoming quarter, coming in at the lower end of analyst expectations.