MFG Global Equities

Key Facts

Portfolio Manager	Hamish Douglass
Strategy Inception Date	1 July 2007
Total Global Equity Assets[1]	USD $19,476.4 million
Composite Size	USD $14,229.2 million

Strategy Fundamentals

	Strategy[6]	Index[6]
Number of Holdings	28	1,615
Return on Equity	19	14
P/E Ratio (1 year forward)	15.8	14.8
Interest Cover	15	10
Debt/Equity Ratio	32	46
Active Share	85	
Weighted Average Market Cap (USD million)	125,930	

USD Gross Performance

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception[4] (% p.a.)
Composite	**-1.2**	**-1.2**	**0.9**	**10.7**	**22.0**	**18.3**	**12.4**
MSCI World NTR	**-2.7**	**-2.2**	**2.6**	**12.2**	**17.9**	**10.9**	**3.0**
MSCI World Quality NTR	-1.9	0.2	4.8	16.2	18.1	13.5	6.8
MSCI World Quality Mix NTR	-2.5	-1.2	3.4	12.7	16.3	11.5	4.5
MSCI World Minimum Volatility NTR	-2.3	-0.6	4.1	10.7	12.9	10.7	4.3

	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 CYTD (%)
Composite	**0.0**	**-21.6**	**39.4**	**18.3**	**11.9**	**21.6**	**30.8**	**1.7**
MSCI World NTR	**-0.1**	**-40.7**	**30.0**	**11.8**	**-5.5**	**15.8**	**26.7**	**3.9**
MSCI World Quality NTR	5.1	-33.8	32.6	10.7	3.8	13.0	27.1	5.5
MSCI World Quality Mix NTR	1.0	-35.4	27.7	11.4	0.7	13.0	24.5	4.9
MSCI World Minimum Volatility NTR	1.0	-29.7	16.4	12.0	7.3	8.1	18.6	6.4

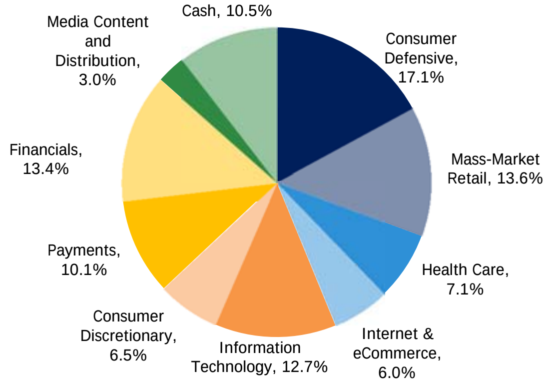
Top 10 Holdings

	GICS Sector	%
eBay Inc	Information Technology	5.9
Microsoft Corp	Information Technology	5.6
Wal-Mart Stores Inc	Consumer Staples	5.3
Yum! Brands Inc	Consumer Discretionary	4.7
Nestlé SA	Consumer Staples	4.7
Target Corp	Consumer Discretionary	4.6
Lowe's Co Inc	Consumer Discretionary	4.5
Oracle Corp	Information Technology	4.5
Sanofi	Health Care	4.3
Visa Inc	Information Technology	4.1

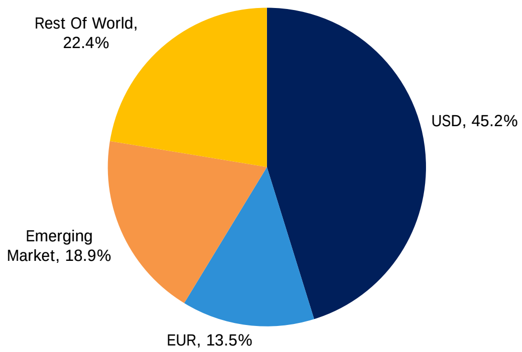
USD Risk Measures[2]

Risk Measures	3 Years	5 Years	Since Inception[4]
Upside Capture	0.9	0.9	0.9
Downside Capture	0.4	0.4	0.5
Beta	0.7	0.7	0.7
Information Ratio	0.7	1.1	1.2
Tracking Error (% p.a.)	6.0%	6.8%	7.8%
Standard Deviation – Strategy (% p.a.)	9.4%	11.0%	14.6%
Standard Deviation – Index (% p.a.)	11.6%	14.3%	18.1%
Worst Drawdown - Strategy	-4.8%	-10.3%	-36.0%
Worst Drawdown - Index	-9.7%	-19.6%	-54.0%
Turnover[6]	24.0%	20.1%	17.1%

Industry Exposure by Source of Revenues[5,6]



Geographical Exposure by Source of Revenues[5,6]



[1] Comprised of all Global Equity strategies.
[2] Returns and risk measures are for the Global Equity Composite and denoted in USD. Refer to the end of the document for further information.
[3] Index: MSCI World Net Total Return Index (USD). Source: MSCI
[4] The inception date of the Composite and the Index is 1 July 2007.
[5] Calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio – MFG defined sectors.
[6] The data is based on a representative portfolio for the strategy. Refer to end of document for further information.

Market Commentary

The US Federal Reserve continued to taper its bond purchases during the third quarter of 2014, amid greater-than-anticipated improvement in the US labour market (and despite lingering concerns over stagnant wage growth). Meanwhile, Eurozone inflation slowed further. In response, the ECB has recently announced its intent to increase the size of its balance sheet by around €800bn through two mechanisms. Firstly, it will provide ultra-cheap funding to banks to then on-lend to the private sector and, secondly, it will purchase private sector securities. As the latter will be financed by money creation, it essentially amounts to small-scale Quantitative Easing.

There has been a massive compression in risk premia across multiple asset classes over the last 18 months. Within equity markets, one manifestation of this has been the underperformance of lower-volatility, high-quality stocks. We consider this a warning sign and believe there is an elevated probability of the risk compression unwinding over the next year or so, as investors focus on normalising US interest rates. As such, we continue to consider the unwinding of Quantitative Easing as the single most important factor that will impact markets and economies over the next few years.

Furthermore, it remains possible that China's economy could experience a significant slowdown as a combined result of market forces and the government's continuing efforts to address the structural oversupply inherent within its housing market. The rapid rate of credit expansion experienced by China in recent years, and its role in funding fixed asset investment and property developers, adds further risk to the situation.

Strategy Commentary

As at 30 September 2014, the Strategy consisted of 27 investments (compared to 28 investments at 30 June 2014). The top ten investments represented 48.2% of the Strategy at 30 September 2014, while they represented 51.2% at 30 June 2014.

During the period, Microsoft was among the Strategy's top contributors as the growth of its cloud products drove strong performance in its core enterprise business. eBay also performed well as it continued to recover from its data breach and provide solid operating metrics. The company also saw its shares jump on the last day of the quarter after announcing plans to spin off PayPal, its online payments business. Conversely, Tesco was the Strategy's largest detractor, as the company announced a change of CEO and also profit warnings for the current financial year. This was compounded by the company's subsequent announcement of an internal investigation into its own accounting practices, which remains an outstanding issue.

Performance elsewhere within the consumer sectors was mixed. Yum! Brands fell on health and safety concerns relating to one of its meat suppliers in China, while Adidas declined due to concerns over its exposure to Russia, weakness in its golf business and rising marketing costs. More positively, Lowe's did well as the recovery in US housing continued, while a number of the company's recent initiatives are also bearing fruit, including an increased focus on Pro and online sales, payroll investment, general expense discipline and assortment and pricing resets. Furthermore, the company's recent results benefited from a recovery in seasonal sales that were lost to bad weather earlier in the year. Likewise, Target made gains after nearer-term sales trends signalled improvement, while cost-optimisation initiatives gained traction. Additionally, insights from the new CEO on his views and likely initiatives have been well received.

We consider that there is an elevated probability that the massive compression in risk premia that has occurred across multiple asset classes over the last 18 months will unwind over the next 12 months or so, as the US Federal Reserve ends Quantitative Easing and investors focus on a normalisation of US interest rates. As a result, we made the decision to raise the Strategy's cash (US dollar) weighting to increase its defensiveness during the period. Within equity markets, one manifestation of the compression in risk premia has been the underperformance of lower-volatility, high-quality stocks and the outperformance of higher-beta stocks. We took this skew into account in determining which areas of the portfolio to liquidate in order to increase the cash exposure. As of the end of the period, this decision has been beneficial to the Strategy's performance.

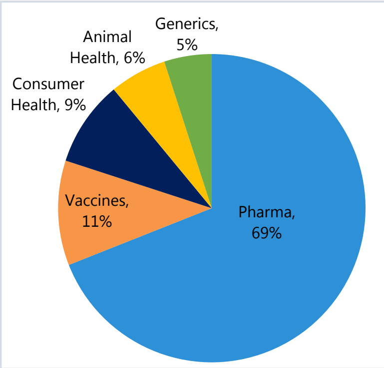
The Strategy remains positioned to benefit from a strengthening US economy, along with normalisation of interest rates and capital market activity.

Key Stock in Focus

SANOFI

Sanofi is the world's fifth-largest pharmaceutical company by market capitalization. In recent years, the company has passed through a major patent cliff that exposed 31% of its sales to generic competition. As these patents expired, management took the opportunity to reposition the business towards areas that could provide stable and sustainable revenue and earnings growth. This involved increasing exposure to the emerging markets, diabetes solutions, vaccines, consumer health, animal health, the treatment of rare diseases and other innovative products. To date, these initiatives have led Sanofi to complete numerous acquisitions and in-licensing agreements. As a result, the company's revenue streams have become more diversified, while dependence on individual products has been reduced.

Figure 1: Sanofi Aventis sales by segment



<u>Investment Case</u>

We look for certain key features when picking healthcare stocks. First, a company's ability to sustain historic returns on invested capital which, in the case of pharma, is achieved by either leveraging a broad-reaching sales force to launch new and competitive medicines at minimal incremental cost, or by using scale to attract smaller biotech/pharma companies as licensing partners. Second, we look for companies with high earnings visibility, low business risk and low economic sensitivity. This often means that the company has a broad portfolio of marketed products, combined with a deep pipeline of drugs in the later stage of clinical development that supports, but is not relied upon, as a key source of growth. Drug development is a hit or miss game and, as such, to rely on the pipeline for future growth reduces earnings visibility and increases risk. We believe Sanofi meets each of these criteria.

Since emerging from a major patent cliff in September 2013, a number of one-off events hampered margin recovery and led to conservative management projections for 2014. While we had ultimately expected margins to improve as these one-offs cycled out or were resolved, we were somewhat surprised at the speed of the recovery during the second quarter of 2014. We expect margins will continue to improve in the second half of the year and into 2015, driven by product launches, productivity initiatives and positive product mix effect.

While earnings visibility has improved, the market remains somewhat cautious over the sustainability of the company's market-leading insulin franchise for diabetics, Lantus, given its upcoming patent expiry in 2015. There are three reasons why we believe these concerns are overdone. First, the company is preparing to release a reformulated product, which it plans to accompany with new, complementary combination drugs that generic producers will not initially be able to match. Second, franchises of this scale require significant sales and manufacturing capabilities that take time to build up and, thirdly, the operational track records of generic drug companies that have come in to compete with similar franchises post patent expiration are littered with delays (which could mean competition is slower to materialize than investors expect).

Outside of pharmaceuticals, Sanofi is the market leader in vaccines and companion animal health. It is because of these leading market positions that Sanofi is staying its course of a diversified asset base, despite the recent industry moves to divest underperforming or subscale businesses.

Unlike pharmaceuticals, the highly-concentrated vaccine market exhibits very low generic risk due to high barriers to entry. In this area, Sanofi is leading in the race to develop the first-ever vaccine for Dengue Fever (the second most widespread tropical disease after malaria). Following successful completion of a clinical trial, this vaccine could easily reach blockbuster status by the end of the decade, if it is accepted onto immunisation programs in Latin America and Asia. Animal health's benefit is that it is defensive; it has a longer lifecycle than pharma despite generic competition, the average age of compounds in its product portfolio exceeds 30 years.

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Performance is compared to the MSCI World Net Total Return Index ('Index'). The Index is a free float adjusted market capitalisation weighted index that is designed to measure the equity market performance of developed markets. The Index measures the price performance of these markets with the income from constituent dividend payments after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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The Global Equity composite is a concentrated global equity strategy investing in high quality companies. The investment objectives of the Global Equity strategy are to earn attractive risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss.

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.

Industry and Geographical Exposures are calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio.