MFG Global Equities

Strategy Update: 30 June 2014

Portfolio Manager Hamish Douglass	Total Global Equity Assets[1] USD $18,228.8 million
Inception date 1 July 2007	Composite Size[2] USD $17,659.6 million

USD Gross Performance[2]

	Composite %	Index %[3]	Excess Return %
1 Month	0.6	1.8	-1.2
3 Months	2.1	4.9	-2.8
6 Months	2.9	6.2	-3.3
1 Year	16.8	24.0	-7.2
2 Years (% p.a.)	21.9	21.3	0.6
3 Years (% p.a.)	19.7	11.8	7.9
4 Years (% p.a.)	22.6	16.2	6.4
5 Years (% p.a.)	22.2	15.0	7.2
Since Inception (% p.a.)	13.1	3.4	9.7
Since Inception	136.8	26.6	110.2

USD Risk Measures Since Inception[2]

Upside Capture	0.9
Downside Capture	0.5
Beta	0.7
Information Ratio (% p.a.)	1.2
Tracking Error (% p.a.)	7.9%
Worst Drawdown - Composite	-36.0%
Worst Drawdown - Index	-54.0%

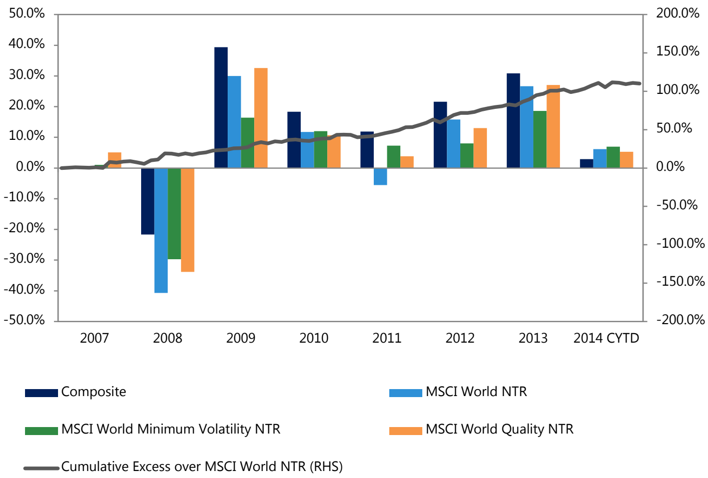
Strategy Fundamentals[4,5]

	Strategy[4]	Index[3]
Number of Holdings	29*	1,611
Return on Equity	20	14
P/E Ratio (1 year forward)	15.7	15.1
Interest Cover	14	10
Debt/Equity Ratio	36	46
Active Share	88	

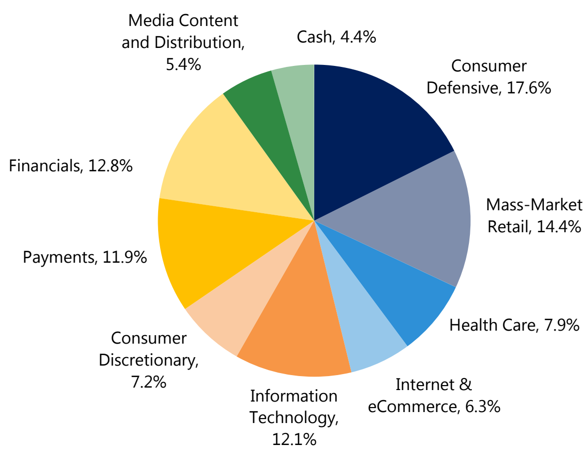
Top 10 Holdings[4]

	Industry Sector	% of Strategy
Microsoft Corp	Information Technology	6.3
Lowe's Co Inc	Consumer Discretionary	5.8
eBay Inc	Information Technology	5.7
DirecTV	Consumer Discretionary	5.4
Tesco PLC	Consumer Staples	5.4
Target Corp	Consumer Discretionary	5.1
Yum! Brands Inc	Consumer Discretionary	4.6
Visa Inc	Information Technology	4.4
Nestlé SA	Consumer Staples	4.2
Oracle Corp	Information Technology	4.2

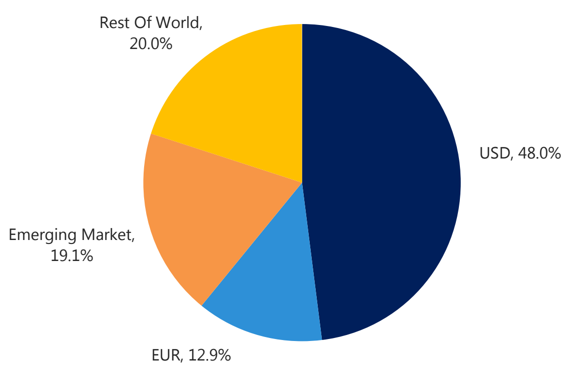
USD Calendar Year Performance against Style Indicies



Industry Exposure by Source of Revenues[4]



Geographical Exposure by Source of Revenues[4]



[1] Comprised of all Global Equity strategies.
[2] Returns and risk measures are for the Global Equity Composite and denoted in USD.
[3] Index: MSCI World Net Total Return Index (USD). Source: MSCI
[4] The statistics and weightings presented relate to a representative income-distributing portfolio and are inclusive of 30 June annual distributions. Non-distributing portfolios may comprise lower cash weightings.
^Refer to the end of the document for further information - Magellan defined sectors
[5] Source: UBS Portfolio Analytics.
* This includes both Class A & Class C securities held by the Strategy in Google Inc.

MFG ASSET MANAGEMENT

Market Commentary

During the second quarter of 2014, the Federal Reserve continued to normalise US monetary policy amid expanding economic activity and an improving employment situation. Conversely, the ECB took further steps to support the Eurozone, which continues to suffer from below-target inflation. These include a number of measures to boost bank lending, including the introduction of negative interest rates on funds deposited with the ECB, as well as the decision to halt sterilisation of bond purchases undertaken as part of its Securities Market Programme (SMP), an action which has been judged by some as a potential pre-cursor to a US-style quantitative easing programme.

In our view, the drivers of US economic growth continue to gather strength, justifying the Federal Reserve's moves to normalise monetary policy. 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. Higher interest rates will be disruptive to markets, particularly those where investors have sought duration and higher yields. We note that the rally in US and European government bonds over the past 6 months (when economic data would have suggested that the opposite might have been expected) may, in part, be due to the Bank of Japan's $600 billion (per annum) quantitative easing programme encouraging Japanese banks, insurers and pension funds to sell Japanese government bonds and invest in other assets, including foreign sovereign bonds.

In China, the property downturn continued with little sign that the government is ready to relax general controls imposed on the market towards the end of 2013. In our opinion, 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 the property developers, adds further to economic risk. We continue to monitor the situation closely.

Strategy Commentary

As at 30 June 2014, the Strategy consisted of 28 investments (compared to 28 investments at 31 March 2014). The top ten investments represented 51.2% of the Strategy at 30 June 2014, while they represented 53.6% at 31 March 2014.

Over the quarter, the top contributor to absolute performance was DirecTV, which rose strongly after receiving a takeover approach from US telecoms giant AT&T. Other strong performers included Yum! Brands, whose Chinese business began to bounce back strongly after a difficult 2013, and Nestle which has been able to offset the effects of soft consumer demand through innovation in both developed and emerging markets, and has recently signalled a willingness to move further into the Nutrition, Health and Wellness space.

Conversely, eBay was among the Strategy's largest detractors, suffering a confluence of headwinds including a data breach, a change in Google's search algorithm adversely affecting its positioning within internet search results, slowing (but still strong) retail sales growth and the resignation of PayPal's CEO. We judge these issues of limited materiality to eBay's investment case over the longer term. Lowe's also detracted, with its share price continuing to consolidate after very strong performance in recent years, given recent mixed data points on the housing recovery's trajectory. Also, Target's results were negatively affected by continued losses in its Canadian business, which is suffering from execution errors, while its US business was held back by the lingering impact of the data breach, as well as an economic environment that remains constrained for the portion of its customers on lower incomes. We are aware of Target's short-term headwinds and continue to believe that the company is likely to surmount these over the next 3 years.

The Strategy is fully invested, despite the strong rise in equity markets in 2013, as we believe its holdings have appealing valuations and should deliver attractive returns for investors over the next 3-5 years. 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:

ebay inc

eBay has two global businesses – Marketplaces (ebay.com) and PayPal. In 2013, these businesses facilitated over US$200 billion in commerce, representing approximately 2% of total global retail sales. On these sales, eBay generated US$16 billion in revenue and operating income of US$3.4 billion.

Marketplaces (52% of revenue and 67% of operating income)

Marketplaces is a leading global e-commerce marketplace, with over 60% of its gross sales generated outside the US. eBay facilitated over US$75 billion of Gross Merchandise Sales (GMV) in 2013. With 140 million active users, Marketplaces provides significant value to online merchants seeking customers, with only Amazon.com having a similar scale.

Marketplaces' initial success was as an auction site in the early days of e-commerce. Increasing full-service online competition from Amazon resulted in stagnant growth from 2008 to 2010. Since then, eBay's management has successfully repositioned the company, using listing fees, search ranking and other tools to encourage sellers to improve service. By 2013, 70% of Marketplace's sales were at a fixed price and over 50% included free shipping. Although auctions and vehicle sales have continued to fall, total Marketplace's gross sales grew by over 10% p.a. between 2010 and 2013.

PayPal (41% of revenue and 31% of operating income)

PayPal is the leading global online wallet, with over 148 million active accounts in over 190 countries and 25 currencies. It allows consumers to purchase online with convenience and security by entering their financial information only once (and never divulging it to merchants). It offers small merchants an inexpensive means of accepting payments and reduces shopping cart abandonment by streamlining transactions.

PayPal is a member of a select group of global method of payment providers, including Visa, MasterCard and American Express. Significant barriers to entry mean that it would be very difficult even for large tech companies like Google, Apple and Amazon to enter the payments market.

Over the last three years, PayPal has experienced well over 20% compound growth in revenue and profit. The business is highly scalable and we expect operating margins to expand materially as this growth continues and the company completes the build out of its global payment infrastructure. Current margins are 24%, compared to Visa and Mastercard's margins of 50-60%.

The Omni-Channel Opportunity

The dramatic growth in smartphones and tablets, coupled with ubiquitous wireless connectivity, has changed the way that people use the internet and expanded the addressable market for internet companies. As a result, eBay users can access its services more frequently and with greater convenience. PayPal is also useful on smartphones, as few people want to enter their credit card information on a small touch-based device. These benefits have contributed to the rapid growth of eBay's businesses on mobile devices. In 2013, mobile commerce volume already represented 16% of eBay's total volume, or US$33b.

Smartphones are quickly bridging the gap between what was previously perceived to be two separate retail channels: online, where eBay's businesses were confined, and offline, creating a single, ubiquitous merchant-customer relationship, known as omni-channel. As the leading third-party internet-enabled facilitator of commerce and payments, this creates enormous opportunities for eBay to expand its market beyond e-commerce, and to increase the number and quality of services that it offers.

Many traditional retailers continue to struggle due to the secular shift to e-commerce, with these struggles compounded by increasing competition from Amazon. Amazon's success is in part derived from its convenience and superior ability to successfully make use of customer data. However, eBay's businesses are well positioned to partner with traditional offline retailers, providing them with the means to fight back:

- Leveraging store assets: eBay can display a local retailer's inventory online (on its websites and apps) and give customers the choice of delivery or pick up in-store.
- Levelling the data playing field and more: PayPal is increasing its presence offline at the point of sale in the US. PayPal encourages customers to identify themselves to merchants to receive special treatment, increasing a merchant's visibility into its customers' behaviours, its ability to reward loyalty, personalise the experience and drive sales.

PayPal is in the early stages of its strategy of achieving ubiquity online (on and off eBay), at the retail point of sale and within apps consumers use to conduct transactions (e.g. Uber). In 2013, PayPal was used for 73% of eBay gross sales, 11% of online transactions off-eBay, and currently 0% of transactions offline. The opportunity is immense.

We believe that eBay is currently attractively priced and there is potentially enormous upside should Marketplaces and PayPal successfully execute their omni-channel strategies.

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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.

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