

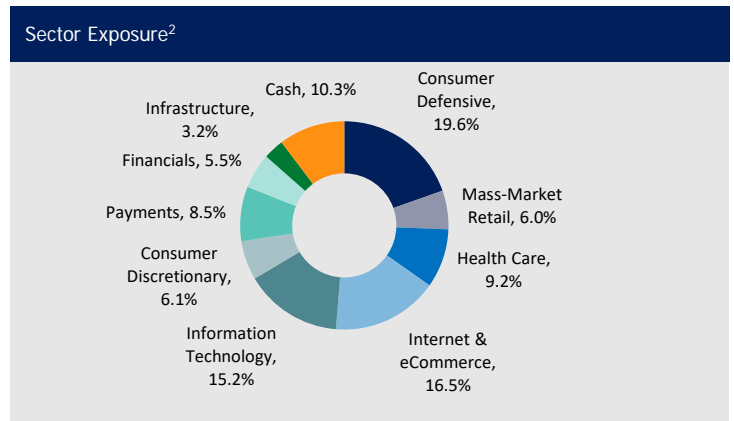
# MFG Global Equity (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets <sup>1</sup>
Hamish Douglass	1 July 2007	USD \$30,480.1 million	USD \$37,695.9 million

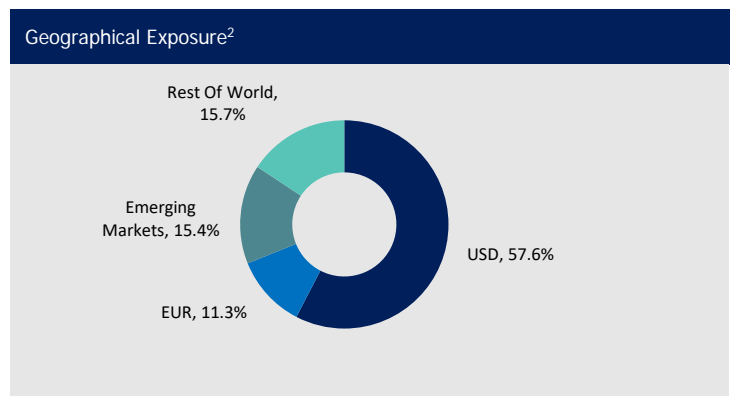
Objective	Approach
Capital preservation in adverse markets	High conviction (20-40 securities), high quality focus
Pre-fee return of 10%p.a. through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8^

Strategy Fundamentals <sup>2</sup>	Strategy	Index
Number of Holdings	23	1,652
Return on Equity	25	14
P/E Ratio (1 year forward)	19.6	17.1
Interest Cover	11	10
Debt/Equity Ratio	51	52
Active Share	89	n/a
Weighted Average Market Cap (USD million)	255,686	n/a

Top 10 Holdings <sup>2</sup>	Sector <sup>2</sup>	%
Apple Inc	Information Technology	7.5
Alphabet Inc	Internet & eCommerce	6.6
Facebook Inc-A	Internet & eCommerce	6.2
Lowe's Co Inc	Consumer Discretionary	6.1
Visa Inc	Payments	5.1
Starbucks Corp	Consumer Defensive	4.8
Kraft Heinz Co	Consumer Defensive	4.4
Microsoft Corp	Information Technology	4.2
Wells Fargo & Co	Financials	4.0
HCA Holdings Inc	Health Care	3.9
TOTAL:		52.8



Capital Preservation Measures <sup>4</sup>	3 Years	5 Years	7 Years	Since Inception
<b>Adverse Markets</b>				
No of observations	9	11	19	37
Outperformance consistency	100%	100%	100%	95%
Average return – Strategy	-1.6%	-1.1%	-0.8%	-3.9%
Average return – Benchmark	-4.3%	-3.7%	-5.1%	-8.5%
Down Market Capture	0.4	0.3	0.1	0.5
<b>Drawdown</b>				
Maximum Drawdown - Strategy	-7.3%	-7.3%	-7.3%	-36.0%
Maximum Drawdown - Index	-12.0%	-12.0%	-19.6%	-54.0%



Cumulative Performance <sup>3</sup>	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
<b>Composite (Gross)</b>	<b>6.5</b>	<b>25.2</b>	<b>11.0</b>	<b>13.8</b>	<b>14.6</b>	<b>12.9</b>	<b>12.2</b>
Composite (Net)	6.3	24.2	10.1	12.9	13.7	12.0	11.3
MSCI World NTR Index	5.5	22.4	9.3	11.6	9.6	5.0	4.8
Excess (Gross)	1.0	2.8	1.7	2.2	5.0	7.9	7.4
MSCI World Qual. Mix NTR	5.8	21.5	10.0	12.2	10.6	6.4	6.2
MSCI Min. Vol. NTR	4.4	17.3	9.9	11.9	10.6	6.4	6.2

Annual Performance <sup>3</sup>	CYTD (%)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007*
<b>Composite (Gross)</b>	<b>25.2</b>	<b>4.7</b>	<b>4.2</b>	<b>6.6</b>	<b>30.8</b>	<b>21.6</b>	<b>11.9</b>	<b>18.3</b>	<b>39.4</b>	<b>-21.6</b>	<b>0.0</b>
Composite (Net)	24.2	3.9	3.4	5.7	29.8	20.7	11.0	17.4	38.3	-22.3	-0.4
MSCI World NTR Index	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8	30.0	-40.7	-0.1
Excess (Gross)	2.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5	9.4	19.1	0.1
MSCI World Qual. Mix NTR	21.5	7.9	1.6	7.3	24.5	13.0	0.7	11.4	27.7	-35.4	1.0
MSCI Min. Vol. NTR	17.3	7.5	5.2	11.4	18.6	8.1	7.3	12.0	16.4	-29.7	1.0

Supplementary Statistical Measures <sup>5</sup>	3 Years	5 Years	7 Years	Since Inception
Turnover	24.9%	21.1%	18.2%	14.8%
Beta	0.9	0.9	0.7	0.7
Tracking Error (% p.a.)	3.8%	4.0%	5.5%	6.9%
Standard Deviation – Strategy	9.4%	9.2%	9.5%	13.2%
Information Ratio	0.4	0.5	0.9	1.1

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 MSCI World NTR Index. Refer to the Important Notice below for further information.

3 Returns are for the Global Equity 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 Risk measures are calculated before fees and in USD. An adverse market is defined as a negative quarter, rolled monthly, for the MSCI World Net TR USD Index, whilst drawdown measures are measured monthly.

5 Supplementary Statistical Measures Beta, Tracking Error and Information Ratio are calculated in USD using the MSCI World NTR Index.

<sup>^</sup> 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.

#### IMPORTANT NOTICE

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited 'doing business as'/trading as' MFG Asset Management ('MFG Asset Management') and an investment fund or investment strategy managed by MFG Asset Management ('Strategy'). No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice.

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

No representation or warranty, express or implied, is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. 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 material including trading losses, loss of opportunity or incidental or punitive damages.

This material is strictly confidential and is being provided to you solely for your information and must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of MFG Asset Management. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any licence or right to use any trademark displayed without the written permission of the owner.

United Kingdom - This material does not constitute an offer or inducement to engage in an investment activity under the provisions of the Financial Services and Markets Act 2000 (FSMA). This material does not form part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any shares, units or other type of investment product or service. This material or any part of it, or the fact of its distribution, is for background purposes only. This material has not been approved by a person authorised under the FSMA and its distribution in the United Kingdom and is only being made to persons in circumstances that will not constitute a financial promotion for the purposes of section 21 of the FSMA as a result of an exemption contained in the FSMA 2000 (Financial Promotion) Order 2005 as set out below. This material is exempt from the restrictions in the FSMA as it is to be strictly communicated only to 'investment professionals' as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO).

United States of America - This material is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of MFG Asset Management to create legal relations on the basis of information provided herein. Where performance figures are shown net of fees charged to clients, the performance has been reduced by the amount of the highest fee charged to any client employing that particular 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 and also may be found in Part II of MFG Asset Management's Form ADV.

The MSCI World Index (Net) 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.

#### GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) claims compliance with the Global Investment Performance Standards (GIPS®)

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

The Global Equity composite is a concentrated global equity strategy investing in high quality companies (typically 20-40 stocks). 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 Global Equity strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The composite was created in December 2011.

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 client.reporting@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.

GLOBALUSD43100

## Market Commentary

---

Global stocks set record highs as they rose for a seventh straight quarter in the December quarter as US companies overall posted higher-than-expected earnings, the internet giants surged on strong results and their upbeat outlooks, US Congress slashed the corporate tax rate, the Federal Reserve projected that it would only tighten US monetary policy slowly, and the world's major economies grew in unison for the first time in about a decade. European stocks, however, slid on political uncertainty. Ten of the 11 industry classifications within the MSCI World Index rose in US-dollar terms over the quarter. IT and materials were the best-performing sectors while utilities fell.

US stocks reached unprecedented heights as Amazon, Alphabet and Microsoft were among tech stocks that surged after posting better-than-expected earnings. The biggest rewriting of tax laws since 1986 lowered the corporate tax rate from 35% to 21%. The Fed in December raised the cash rate by 25 basis points to between 1.25% and 1.5% and maintained a projection of three rate increases over 2018. The Fed made its fifth post-crisis rate increase – and third for 2017 – on signs that the US economy is growing at close to capacity. The third reading of GDP showed the US economy expanded 3.2% over the September quarter, a pace not achieved since the first quarter of 2015, while the unemployment rate stayed at a 17-year low of 4.1% in November.

European equities struggled after Chancellor Angela Merkel's Christian Democratic Union of Germany Party was unable to form a coalition after indecisive elections in September, Italy's president in December dissolved parliament and called for elections in March that populist euro-sceptic parties are expected to do well at, and pro-independence parties won a slender majority in elections in Catalonia in December, to leave unresolved the Catalan drive for independence from Spain.

In Asia, Japanese stocks rose after Japan's Prime Minister Shinzō Abe won a snap general election in October that signalled the country's fiscal and monetary stimulus would continue and Japan's economic expansion reached seven consecutive quarters of growth. In China, stocks rose after the Communist party's 19th congress in October cemented the leadership of Xi Jinping across all levers of the government and a report showed China's economy expanded 6.8% in the September quarter from a year earlier.

## Strategy Commentary

---

The strategy recorded a positive return for the quarter. The largest contributors to performance included the investments in Lowe's, Apple and Microsoft. Lowe's gained after announcing higher-than-expected earnings growth for the third quarter and the US's second-largest home-improvement chain was seen as a major beneficiary of lower corporate taxes because it sources all its revenue in the US. Apple rose after its higher-than-expected quarterly revenue and profit results showed iPhones remained popular, aided by the 10-year anniversary launch of the iPhone X, and that its services and wearables businesses are performing well. Microsoft gained after margin expansion in its server software and personal computers businesses drove quarterly earnings of 84 US cents a share, a result that beat consensus and guidance. While Microsoft has performed strongly, it remains an attractive investment proposition. Its business software products dominate in their categories and we expect Microsoft will lead the next generation of enterprise computing infrastructure via its investment in cloud services.

Over the quarter, stocks that lagged included investments in Sanofi, Oracle and eBay. Sanofi fell amid ongoing disputes regarding patent protections of its diabetes products and after third-quarter revenue missed estimates due to pressure on drug prices in the US. Oracle slid as guidance for next quarter's cloud-computing sales fell short of estimates. Despite lower-than-expected growth, Oracle has made significant progress transitioning to cloud computing in recent years, particularly in applications, increasing its total addressable market. eBay fell when the owner of the online auction site marginally downgraded full-year earnings-per-share guidance due to issues at its StubHub ticket-selling site.



### Starbucks – Cafés offering personalised choice that have gone global

Feel like a coffee? At a Starbucks café in the US you could try the Eggnog Latte or the Gingerbread Latte or one of the Frappuccino® cold coffees. If you want a hot chocolate, the choices include the new Toffee Almondmilk or the Snickerdoodle. Prefer a tea? Perhaps you could try the Teavana® Apple Joyful Medley option or the Emperor's Cloud and Mist® Green selection. You can instead opt for a Fizzio™ 'handcrafted' soda. You can grab a bite to eat as well. Whatever you select, your choice is personalised, delivered with a smile in a café with a localised décor that styles itself as a 'neighbourhood gathering place', somewhere to escape home and work. Such is the formula behind the world's largest chain of coffee shops.

From a store in Pike Place Market that overlooks Seattle's waterfront, Starbucks has ballooned into a chain that serves about 90 million customers a week across its 27,339 company-owned and licensed outlets in 75 countries. The company, named after the first mate on the whaler Pequod in Herman Melville's novel Moby Dick, earned revenue of US\$22.4 billion in fiscal 2017, up 7% from a year earlier.

The key to the Starbucks juggernaut is the company's success in making people want to come back for the beverages and food in its cafés. To encourage customers to return, Starbucks runs stylish cafés in key locations where people are free to hang around. As eclectic music plays, baristas greet regulars by name and customise their drinks from the vast number of combinations available worldwide. The company is making mobile order and pay widely available to speed up service and it operates the Starbucks Rewards™ loyalty program to give people a financial incentive to order again.

The habitual nature of coffee, Starbucks's loyal customers, their appreciation for Starbucks as a destination in itself, which limits disruption risk, the company's aggressive focus on expanding its chain, especially in China, its ability to generate healthy same-store-sales growth, a renewed focus on controlling costs, steady product innovation and the prized brand represented by the twin-tailed-siren logo make Starbucks a compelling company from an investor's point of view.

Starbucks has its challenges including that it is part of a competitive industry in which a number of up-starts and established companies are trying to replicate Starbucks' success. The pace of growth slipped in fiscal 2017 when same-store-sales growth only rose 3% compared with 5% in fiscal 2016. However, even allowing for the slower growth rate over the past 12 months, sales growth averaged 10% p.a. over the past four fiscal years while earnings-per-share growth

averaged 17% p.a. So the company's operating history is strong and is likely to stay that way.

### Growth focus

While Starbucks traces its history to 1971, the pivotal moment occurred 10 years later when Howard Schultz walked into a Starbucks store and tried a cup of Sumatra. Impressed by the operation, Schultz joined a year later to become director of retail operations and marketing. Schultz's vision for Starbucks emerged from a trip to Italy in 1983 when he saw how influential cafés were in Italian community life. In 1984, he convinced the Starbucks founders to mimic the coffeehouse concept and the first Starbucks Caffè Latte was served in Seattle. After leaving Starbucks in 1985 to start an Italian-style coffeehouse named Il Giornale, Schultz returned in 1987 when Il Giornale purchased Starbucks. Total stores at the time numbered 17.

Schultz became chief executive and chair of the revamped Starbucks and infused the chain's cafés with the feel of the Italian coffee bars. While Schultz stepped down as CEO in April of 2017, he remains chairman and owns about 3% of the company that was listed in 1992 when Starbucks had 165 stores.

The company's café chain, which expanded by 2,254 outlets in fiscal 2017, brings in about 90% of the company's revenue while consumer-packaged goods and 'foodservice' (wholesale sales of whole bean and ground coffee etc.) drive the remainder. Away from its cafés, Starbucks's ambitions include gaining a share of the 'at-home coffee' market by selling coffee machines and associated pods, now available from other outlets as well as Starbucks stores. Other revenue comes from ready-to-drink beverages such as Frappuccino® and Starbucks Doubleshot® sold worldwide through channels such as grocery and convenience stores.

Starbucks remains focused on growth, especially in the US and China, and on expanding its profit margins. The company aims to deliver high single-digit revenue growth each year over the long term by driving more volume through existing stores and expanding the global footprint. Its target for earnings-per-share growth is 12% per annum, or better.

Starbucks has robust plans for China, which is its fastest-growing market. It achieved same-store sales of 7% in fiscal 2017 compared with 3% overall and in the US. In fiscal 2018, the company plans to open nearly 600 outlets in China, and recently bought out the partner of its Chinese joint venture that operates around 1,300 stores. When the transaction is completed, the company will control about 2,900 locations in China. As with every Starbucks café, each will offer personalised choice with a smile in a café with localised décor that doubles as a neighbourhood gathering place.