

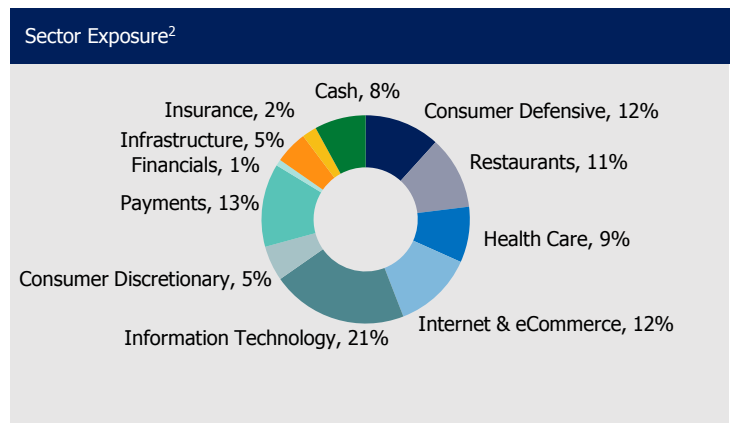
MFG Global Equity (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets ¹
Hamish Douglass	1 July 2007	USD \$34,621.6 million	USD \$44,926.4 million

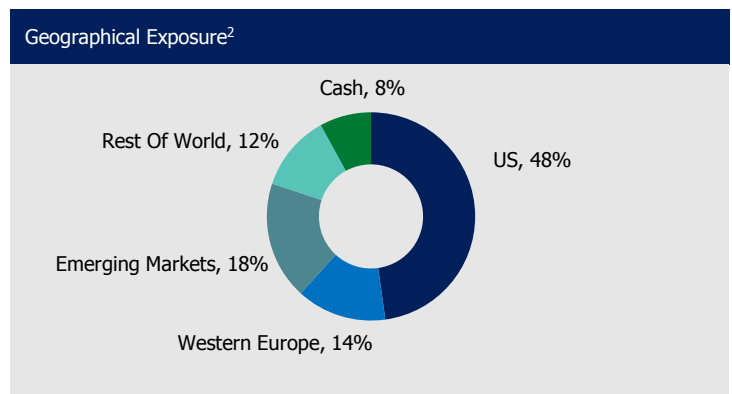
Objective	Approach
Capital preservation in adverse markets	High conviction (20-40 securities), high quality focus
Pre-fee return of 10%p.a. through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8 [^]

Strategy Fundamentals ²	Strategy	Index
Number of Holdings	28	1,655
Return on Equity	34	16
P/E Ratio (1 year forward)	21.4	15.7
Interest Cover	13	11
Debt/Equity Ratio	75	53
Active Share	86	n/a
Weighted Average Market Cap (USD million)	316,597	n/a

Top 10 Holdings ²	Sector ²	%
Microsoft Corp	Information Technology	7.3
Facebook Inc-A	Internet & eCommerce	6.7
Visa Inc	Payments	5.9
Starbucks Corp	Restaurants	5.8
Alphabet Inc	Internet & eCommerce	5.7
Apple Inc	Information Technology	5.4
HCA Healthcare Inc	Health Care	4.6
SAP SE	Information Technology	4.5
MasterCard Inc	Payments	4.4
Novartis AG	Health Care	4.0
TOTAL:		54.3



Capital Preservation Measures ³	3 Years	5 Years	7 Years	10 Years	Since Inceptio
Adverse Markets					
No of observations	8	18	19	30	44
Outperformance consistency	88%	94%	95%	97%	93%
Average return – Strategy	-1.9%	-1.5%	-1.4%	-1.5%	-3.7%
Average return – Benchmark	-4.3%	-4.1%	-4.0%	-5.1%	-7.9%
Down Market Capture	0.5	0.4	0.3	0.3	0.5
Drawdown					
Maximum Drawdown - Strategy	-9.2%	-9.2%	-9.2%	-10.3%	-36.0%
Maximum Drawdown - Index	-13.4%	-13.4%	-13.4%	-19.6%	-54.0%



Cumulative Performance ⁴	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	6.5	15.8	16.9	11.0	14.0	16.5	12.2
Composite (Net)	6.3	14.9	16.0	10.2	13.1	15.6	11.3
MSCI World NTR Index	4.0	6.3	11.8	6.6	10.6	10.7	4.7
Excess (Gross)	2.5	9.5	5.1	4.4	3.4	5.8	7.5
MSCI World Qual. Mix NTR	3.9	9.2	11.3	8.0	11.0	11.4	6.2
MSCI Min. Vol. NTR	4.8	13.9	8.7	9.4	10.7	11.6	6.5

Annual Performance ⁴	CYTD (%)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite (Gross)	18.9	0.4	25.2	4.7	4.2	6.6	30.8	21.6	11.9	18.3	39.4
Composite (Net)	18.4	-0.4	24.2	3.9	3.4	5.7	29.8	20.7	11.0	17.4	38.3
MSCI World NTR Index	17.0	-8.7	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8	30.0
Excess (Gross)	1.9	9.1	2.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5	9.4
MSCI World Qual. Mix NTR	16.7	-6.5	21.5	7.9	1.6	7.3	24.5	13.0	0.7	11.4	27.7
MSCI Min. Vol. NTR	15.9	-2.0	17.3	7.5	5.2	11.4	18.6	8.1	7.3	12.0	16.4

Supplementary Statistical Measures ⁵	3 Years	5 Years	7 Years	Since Inception
Turnover	21.3%	20.4%	18.0%	13.7%
Beta	0.8	0.8	0.8	0.8
Tracking Error (% p.a.)	4.1%	4.4%	4.2%	6.6%
Standard Deviation – Strategy	9.9%	10.4%	9.8%	13.1%
Information Ratio	1.2	1.0	0.8	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. Exposures may not sum to 100% due to rounding. The Index is the MSCI World NTR Index. Refer to the Important Notice below for further information.

3 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.

4 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.

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

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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.

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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 copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions 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.

USD is the currency used to calculate performance.

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Market Commentary

Global stocks rose for a second consecutive quarter when they surged in the three months to June after the Federal Reserve and the European Central Bank flagged fresh stimulus to protect their economies, investors grew hopeful the China-US trade war would be contained and US companies on average reported better-than-expected earnings for the March quarter. During the quarter, 10 of the 11 sectors in the MSCI World Index rose in US-dollar terms. Financials (+6.2%) climbed the most while energy (-1.6%) fell.

US stocks reached record highs as they rose for a second straight quarter after the Federal Reserve hinted it would cut rates if clashes on trade drag on the US economy. Even as trade tensions fanned speculation the Fed would cut the cash rate as soon as July, stocks rose on hopes that China and the US would settle differences at the meeting of their leaders at the G20 meeting in Japan in June when they duly agreed to restart talks. In news on the economy, a report showed the US economy expanded at a faster-than-expected annualised pace of 3.1% in the first quarter, up from 2.2% in the last quarter of 2018. The S&P 500 Index rallied 3.8%.

European stocks gained for a second straight quarter after ECB President Mario Draghi said the central bank was prepared to "use all the instruments that are in the toolbox" to help the eurozone's weak economy and political tensions eased. The welcome political news was that populist parties failed to gain a destabilising grip on the European parliament in European elections in May, Spain's government won the country's general election in April, and European leaders eased some uncertainty over the UK's departure from the EU by extending the departure deadline to October 31. Economic news was mostly glum. The eurozone economy expanded only 0.4% in the March quarter, to give a 12-month reading of 1.2%. The Euro Stoxx 50 Index added 3.6%.

Japanese stocks rose after the central Bank of Japan said it would keep interest rates "extremely low" well into 2020. Chinese stocks fell as concerns grew the trade war with the US will hamper its economy. Japan's Nikkei 225 Index rose 0.3%. China's CSI 300 Index fell 1.2%. The MSCI Emerging Markets Index slid 0.3%.

Movements in benchmark indices are in local currency unless stated otherwise.

Strategy Commentary

The strategy recorded a positive return for the June quarter. The biggest contributors included the investments in Facebook, Microsoft and SAP. Facebook climbed after first-quarter sales jumped a higher-than-expected 26%, monthly visitor numbers to the main site over the three months exceeded forecasts, the company hinted it was near a settlement with US authorities over privacy violations, and its plans for a digital currency Libra were well received. Microsoft surged to record highs as March-quarter earnings exceeded expectations thanks to strong growth from the Azure cloud-computing business. SAP climbed after the German software company raised its fiscal 2019 profit forecast thanks to its thriving cloud-computing business, and prominent 'activist' shareholder Elliott Management announced it had bought a stake in SAP and endorsed the company's new plan.

The largest detractors included the investments in Alphabet and Lowe's. Alphabet declined after the House of Representatives said it was launching a broad anti-trust investigation into technology companies including Alphabet's Google. Lowe's fell after rising merchandise costs forced the home-improvement retailer to report lower-than-expected earnings for the March quarter and to reduce its full-year profit forecast.

Stock story: Mastercard



Vocalink is a payments-technology company that was set up by 18 UK banks and building societies to run the UK's network of cash machines. In 2016, Mastercard paid 700 million pounds for the company that processes about 11 billion transactions a year, to beef up its presence in the UK and add real-time payments to the services it offers worldwide. Mastercard's history of acquisitions and innovations such as 'virtual cards' – where one-time card numbers are issued for specific transactions at specific merchants – have helped the New York-based company become the second-largest global payment network in a world that is using less cash and fewer cheques each year.

The company that was formed in 1966 when some US banks created a card network earned US\$15 billion in revenue in 2018, up 20% from the previous year. Over the 12 months, this revenue was generated from handling US\$5.9 trillion in payments from 2.3 billion cards in more than 150 currencies conducted within 210 countries and territories. Mastercard has enjoyed strong share price gains in recent times because investors assess that it's likely to keep posting strong earnings growth in coming years. Mastercard shares rallied 134% in the five years to 2018 compared with a 48% gain in the S&P 500 Index.

The beauty of Mastercard's business model is twofold. The first is that demand for its services is strong because e-retailing, tap-and-go and mobile payments are taking off in a world where more than 80% of transactions are still in cash and cheque. Another boost is that governments keen on 'inclusive growth' are pushing for financial services to reach more people. The other is that Mastercard's competitors outside of China are likely to remain the existing payments companies namely, American Express, PayPal and Visa, the largest payments company. This is because the payment companies enjoy the strong protections of the network effect that links consumers, merchants and banks – where each additional user boosts the benefits of a network for all users. The businesses of Mastercard and its three competitors are largely impregnable from newcomers. (China has a unique payments ecosystem that is difficult for Mastercard, Visa and others to penetrate.)

To take market share from the four incumbents, any newcomer to the global payments business would need consumers and merchants to simultaneously accept its card. To achieve that, the entrant would need to achieve mass awareness, offer a simple means of payment, have ubiquitous technology, be trusted (even though the issuing bank bears the risk of theft and fraud), meet regulatory requirements in every country it wished to operate, and fulfil arduous customer and merchant servicing needs.

Thus far it has even been too hard for the likes of Apple, Facebook, Google and Samsung. Rather than pose threats to the payments status quo, Apple Pay, Samsung Pay and

Android Pay are piggybacking the infrastructure set up by the payment companies. That means that the growth of mobile payments offerings by the tech giants helps Mastercard and its three peers. Cryptocurrencies are no threat either because payments this way are, so far, too slow and insecure to take market share and they face major regulatory impediments. Their volatile prices are another risk too.

Mastercard faces risks, of course. The payment companies are reliant on consumer spending for fees so their share prices can lag if investors become pessimistic about the economic outlook. American Express, PayPal and Visa could dent Mastercard's market share, even if no newcomer is likely to. Another risk is excessive regulation as governments move to protect privacy and competition – evidence of this is that the EU this year fined Mastercard US\$650 million for stopping merchants from clinching better deals from banks in other member countries. Another risk is cybersecurity breaches that dent people's faith in mobile payments. Then there is the limit to Mastercard's growth due to China blocking the entry of the US payments companies. But while the world outside China keeps expanding, societies go more cashless and mobile remains a secure way to pay, Mastercard and its competitors are likely to enjoy buoyant times.

Beyond core

Mastercard nowadays describes itself as a "technology company in the global payments industry". The emphasis on technology is to highlight that Mastercard connects financial institutions, partners, merchants and others worldwide so they can use electronic forms of payment. Mastercard's core role is to authorise, clear and settle payments through its global payments network. A typical transaction on Mastercard's core network involves four players plus Mastercard. These four are the account holder, the card issuer, the merchant and the merchant's bank or financial institution.

The company does not issue cards, extend credit, set or receive revenue from interest rates and other charges. These functions are handled by the financial institution that issues cards bearing the interlocking red and yellow brand mark. Mastercard derives most of its revenue from a fee on the gross dollar volume (value) of activity on the products that carry its brands. For consumers, the company that adopted the name Mastercard in 1979 is a one stop for secure domestic and cross-border transactions. Fees on cross-border transactions – a measure of cardholders' spending abroad – account for about 33% of Mastercard's revenue.

Also of note is that about 17% of Mastercard's revenue last year was derived from developed countries.

The company is always trying to expand beyond its core services. That's where fits in the Vocalink acquisition that was finalised in 2017. Last year, Mastercard started promoting the real-time accounts-based payments capabilities acquired with Vocalink.

These efforts included the launch of a service in the US (with The Clearing House) that enables people and businesses to send and receive immediate payments. It all helps Mastercard cement its number two spot in a lucrative industry.

Sources: Company filings and website and Bloomberg.