MFG Global Equities

Strategy Update: 30 September 2013

Portfolio Manager Hamish Douglass	Total Global Equity Assets[1] USD $12,295.2 million
Inception date 1 July 2007	Composite Size[2] USD $11,698.1million

USD Gross Performance[2]

	Composite %	Index %[3]	Excess Return %
1 Month	3.5	5.0	-1.5
3 Months	4.2	8.2	-4.0
6 Months	7.6	8.9	-1.3
1 Year	23.3	20.2	3.1
2 Years (p.a.)	28.0	20.9	7.1
3 Years (p.a.)	21.5	11.8	9.7
4 Years (p.a.)	20.2	10.5	9.7
5 Years (p.a.)	17.4	7.8	9.6
Since Inception (p.a.)	12.7	1.6	11.1
Since Inception	111.2	10.4	100.8

USD Gross Performance - Calendar Year

	Composite %	Index %[3]	Excess Return %
2007 (part year)	0.0	-0.1	0.1
2008	-21.6	-40.7	19.1
2009	39.4	30.0	9.4
2010	18.3	11.8	6.5
2011	11.9	-5.5	17.4
2012	21.6	15.8	5.8
2013 (part year)	20.1	17.3	2.8

USD Risk Measures Since Inception[2]

Upside Capture	0.9
Downside Capture	0.5
Beta	0.7
Information Ratio (p.a.)	1.4
Tracking Error (p.a.)	8.2%
Worst Drawdown - Composite	-36.0%
Worst Drawdown - Index[3]	-54.0%

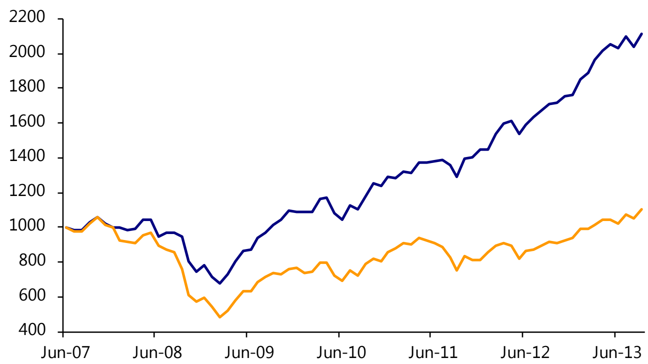
Strategy Fundamentals[4,5]

	Strategy[4]	Index[3]
Number of Holdings	27	1,591
Return on Equity	23	16
P/E Ratio (1 year forward)	15	15
Interest Cover	15	10
Debt/Equity Ratio	23	47
Active Share	89	

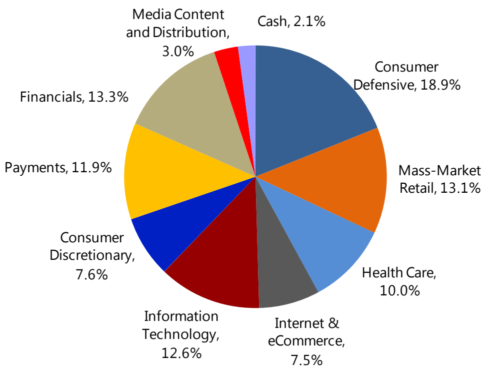
Top 10 Holdings[4]

	Sector	% of Strategy
Microsoft Corp	Information Technology	6.6%
Oracle	Information Technology	6.0%
Lowe's	Consumer Discretionary	5.7%
eBay Inc	Information Technology	5.3%
Tesco Plc	Consumer Staples	5.0%
Google Inc	Information Technology	4.8%
Target Corp	Consumer Discretionary	4.5%
Nestlé SA	Consumer Staples	4.4%
Wells Fargo	Financials	4.4%
Novartis	Health Care	4.4%

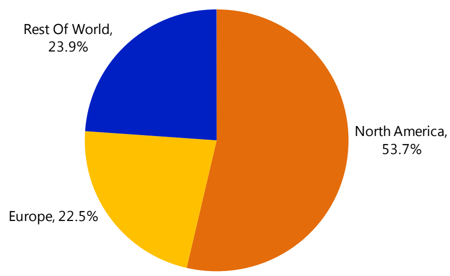
Performance Chart Growth of USD $1,000



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. *Refer to the end of the document for further information.
[3] Index: MSCI World Net TR Index (USD). Source: MSCI
[4] Representative Portfolio. ^Refer to the end of the document for further information.
[5] Source: UBS Portfolio Analytics.

MFG ASSET MANAGEMENT

Market review for the quarter

Global equity markets were strong in the third quarter of 2013 as a number of central banks committed to maintaining loose monetary policies. In the US, in particular, a sharp rise in mortgage rates, the low labour participation rate and concerns over the drag on growth resulting from political wrangling over the country's debt limit caused the Federal Reserve to postpone plans to 'taper' its asset purchases. Ben Bernanke, the FOMC Chairman, subsequently emphasised that tapering would be dependent on the strength of the economy and that there was no set timetable for the removal of supportive policy measures.

Although US monetary policy was among the dominant factors driving markets over the period, a number of significant developments also occurred in other regions. Both the Eurozone and Japan saw their growth rates improve, the former emerging from a long period of recession and the latter seemingly benefitting from the aggressive Abenomics policies implemented almost one year prior. Europe also benefitted from the re-election of German Chancellor Angela Merkel, in what was considered, in some respects, an endorsement of her pro-European policies. Meanwhile, China's economic data was encouraging, giving some indication that the country's growth rate may be stabilising after consecutive years of deceleration.

Despite these developments, we continue to believe that many European countries face a prolonged period of sub-par economic growth due to the combined effects of fiscal austerity by governments and the deleveraging of both bank balance sheets and households. A major near-term risk for Europe would be a dramatic uplift in European sovereign bond yields (particularly in Spain or Italy) which could accompany a disorderly unwinding of quantitative easing in the US

Strategy performance and activity for the quarter

As at 30 September 2013, the Strategy consisted of 27 investments, with the top ten holdings representing 50.9% of its asset value. During the quarter, the Strategy returned 4.2% before fees. This compares with the MSCI World Net Total Return Index in USD (benchmark) return of 8.2%, resulting in relative performance of -4.0%. For the year ending 30 September 2013, the Strategy returned 23.3% before fees which compares with the benchmark return of 20.2%.

Over the quarter, the three stocks with the strongest returns in local currency were MasterCard (17.2%), Lowe's (16.8%) and Tesco (8.3%) while the three stocks with the weakest local currency returns were Target (-6.6%), Coca-Cola (-5.0%) and Unilever (-4.2%).

During the quarter, we added to our existing investments in Oracle and Microsoft as both stocks suffered results-related weakness that we judged short-term in nature. The portfolio remains fully invested, reflective of our comfort with the current macroeconomic environment and subsequent view that it remains an attractive time to be investing in a select portfolio of extremely high-quality multinational companies.

Key Stock in Focus - Oracle

Oracle is the world's largest provider of database software. Its flagship product is the Oracle Relational Database Management System ('RDBMS'), a software product used by businesses to manage data. Oracle also operates a substantial middleware and enterprise software applications business, and currently small hardware and services businesses.

The characteristics of the database software industry are highly attractive. The database market is very highly concentrated (Oracle has around 50% market share by revenues), owing to network effects, high barriers to entry and high switching costs favouring the three incumbents. Vendors earn annuity revenue streams and high returns on capital. Oracle is able to claim that all of the Fortune 100 companies are its customers.

Oracle's core business model is very attractive. It has a massive installed base of customers that purchase software license update and product support contracts annually. In the last financial year, Oracle generated US$17 billion in revenue from software license update and product support fees, growing 6% over the prior year and accounting for nearly 50% of revenues and 75% of segmental earnings. Due to high switching costs, Oracle enjoys low customer attrition and substantial pricing power, typically increasing annual software license update and product support fees by CPI plus 1-2%. This level of pricing power is extremely rare in any industry. It is also a beneficiary of the explosion in data generated by the internet and a proliferation of mobile and other devices capable of collecting information, as its software pricing model is related to the amount of data processed. This is a remarkable annuity style business.

Over time, Oracle's revenue will continue to benefit from pricing escalators and growth in data and users of deployed software. However, as Oracle is nearly fully penetrated among large, multinational enterprises, in order to grow more quickly, it will be required to further build out its software portfolio organically or via acquisitions, cross-sell its various software products to existing clients, and target smaller customers with its cloud software. While Oracle faces some nimble and able competitors in the cloud applications market (such as Salesforce.com), we consider that IT departments generally prefer to source core enterprise software from a single vendor simplifying integration, which favours Oracle. We also expect Oracle will increasingly sell the hardware which it has optimised to run its software. This hardware, which Oracle calls Engineered Systems, has achieved strong growth since its release in 2008, but this has been masked by a rapidly declining commodity hardware business that Oracle acquired with Sun Microsystems in 2009.

Risks

Sheer growth in the volume of data and speed of analysis required is encouraging the development of new database solutions that have the potential to both accelerate and cannibalise demand for existing relational databases. One example is Hadoop, which is a non-relational, open-source version of Google's early internal database systems.

While non-traditional database management systems like Hadoop are able to efficiently analyse vast amounts of unstructured data, we believe that RDBMSs will likely remain the dominant systems supporting the vast majority of day-to-day transactions and structured data analytics needs. In any case, Oracle offers its own non-traditional database products and bridging software to enable enterprises to convert unstructured data into a relational format for analysis and management decision making. Therefore, while we acknowledge the potential risk posed by non-traditional database systems, it is insufficient to materially affect our assessment of Oracle's economic moat.

In-memory databases are also considered a threat to Oracle's database business. SAP has recently launched an in-memory database product (HANA) which offers substantially increased processing speed, in comparison to standard RDBMSs, at the substantial cost of rewriting all existing applications as well as considerably more expensive hardware. In response, Oracle has launched its own in-memory product, which it claims is substantially cheaper, runs all existing applications, and is faster than HANA. While it is difficult to substantiate Oracle's claims until the product is released, we are confident that HANA is less of a threat to Oracle's business than the market assumes.

Cloud-computing will continue to disrupt the traditional on-premise enterprise software business model. However, we believe that Oracle is well placed to navigate this risk, as it has produced a database product (Oracle Database 12c) and a suite of applications (Oracle Fusion apps) designed specifically for the cloud.

Valuation

We consider that Oracle represents a compelling value proposition at present. It is trading on a historical non-GAAP PE multiple of less than 13x, and a free cash flow yield of in excess of 8.5%. Oracle also has a strong track record of returning its free cash flow to shareholders. Last financial year it bought back approximately 5% of its issued capital and paid a healthy dividend. We believe that the reason it is trading on such attractive terms is due to the market's uncertainty about the impact of alternative databases on its core database business, and its ability to win in the enterprise applications market.
it to provide strong long-term returns for investors

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.

GIPS® DISCLOSURE

* MFGAM 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 MFGAM.

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 superior 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.