MFG ASSET MANAGEMENT

Strategy Update: 30 September 2019

MFG Global Plus (USD)

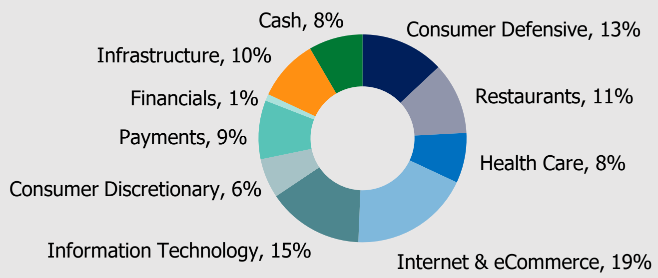
Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets[1]
Hamish Douglass	1 July 2013	USD $8,578.2 million	USD $45,576.9 million

Objective	Approach
Capital preservation in adverse markets Pre-fee return of 10%p.a. through the economic cycle	High conviction (20-40 securities), high quality focus 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	26	1,641
Return on Equity	32	16
P/E Ratio (1 year forward)	22.2	15.8
Interest Cover	13	11
Debt/Equity Ratio	72	53
Active Share	87	n/a
Weighted Average Market Cap (USD million)	322,799	n/a

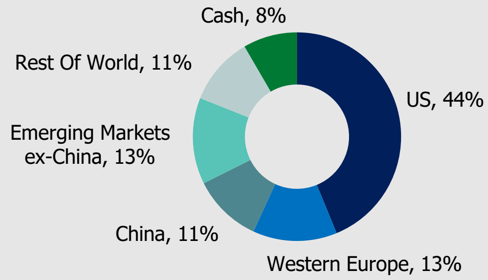
Top 10 Holdings[2]	Sector[2]	%
Alphabet Inc	Internet & eCommerce	7.1
Microsoft Corp	Information Technology	6.4
Facebook Inc-A	Internet & eCommerce	6.1
Starbucks Corp	Restaurants	5.6
Alibaba Group Holding Ltd	Internet & eCommerce	5.5
Visa Inc	Payments	5.2
Apple Inc	Information Technology	4.7
LVMH	Consumer Discretionary	4.4
HCA Healthcare Inc	Health Care	4.1
Yum! Brands Inc	Restaurants	4.0
	TOTAL:	53.1

Sector Exposure[2]



Capital Preservation Measures[3]	3 Years	5 Years	Since Inception
Adverse Markets			
No of observations	8	17	18
Outperformance consistency	88%	94%	94%
Average return – Strategy	-2.0%	-1.6%	-1.6%
Average return – Benchmark	-4.3%	-4.2%	-4.1%
Down Market Capture	0.5	0.4	0.4
Drawdown			
Maximum Drawdown - Strategy	-9.2%	-9.2%	-9.2%
Maximum Drawdown - Index	-13.4%	-13.4%	-13.4%

Geographical Exposure[2]



Cumulative Performance[4]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	1.2	9.2	15.1	11.5	11.6
Composite (Net)	1.0	8.4	14.2	10.6	10.7
MSCI World NTR Index	0.5	1.8	10.2	7.2	9.0
Excess (Gross)	0.7	7.4	4.9	4.3	2.6
MSCI World Qual. Mix NTR	1.7	5.1	10.7	8.6	10.0
MSCI Min. Vol. NTR	3.2	10.9	10.2	10.2	10.5

Annual Performance[4]	CYTD (%)	2018	2017	2016	2015	2014	2013*
Composite (Gross)	20.3	0.3	25.6	4.3	3.9	6.6	13.4
Composite (Net)	19.6	-0.5	24.6	3.4	3.0	5.8	12.9
MSCI World NTR Index	17.6	-8.7	22.4	7.5	-0.9	4.9	16.8
Excess (Gross)	2.7	9.0	3.2	-3.2	4.8	1.7	-3.4
MSCI World Qual. Mix NTR	18.7	-6.5	21.5	7.9	1.6	7.3	14.3
MSCI Min. Vol. NTR	19.6	-2.0	17.3	7.5	5.2	11.4	7.9

Supplementary Statistical Measures[5]	3 Years	5 Years	Since Inception
Beta	0.8	0.8	0.8
Tracking Error (% p.a.)	4.9%	4.8%	4.6%
Standard Deviation – Strategy	9.8%	10.4%	10.1%
Information Ratio	1.0	0.9	0.6

1 Comprised of all Global Strategies.
2 The data is based on a representative portfolio for the strategy. The representative portfolio changed in July 2017 due to the closure of the former representative portfolio. 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 Returns are for the Global Plus 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.
^ 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.

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, excluding portfolios managed by subsidiaries operating as distinct business entities. MFG Asset Management is a wholly-owned subsidiary of the publicly listed company Magellan Financial Group Limited. MFG Asset Management is based in Sydney, Australia. Total Firm assets is defined as all assets managed by MFG Asset Management, excluding assets managed by subsidiaries operating as distinct business entities.

The Global Plus 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 Plus strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The minimum market capitalisation for a stock to be included is US$25 billion. The composite was created in July 2013.

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.

Market Commentary

Global stocks rose for a third consecutive quarter in the three months to September after the Federal Reserve and the European Central Bank eased monetary policy, investors grew hopeful the China-US trade war would be contained and US companies on average reported better-than-expected earnings for the June quarter.

Gains were capped when Saudi Arabia's oil processing facilities were attacked by drones blamed on Iran, the UK headed towards a 'no deal' departure from the EU, Hong Kong riots directed at China grew violent, Argentina defaulted and manufacturing gauges pointed to a slowing in the world economy. The Morgan Stanley Capital International World Index rose 0.5% in US dollars.

US stocks rose after the Fed delivered its first rate reductions in 11 years, the US economic expansion became the longest in history when it entered its 121st month in July, Congress passed a deal that defused the debt-limit issue for two years, and company earnings on average beat forecasts. The Fed fulfilled expectations when it reduced its key lending rate by a quarter point in July and September to lower the range to 1.75% to 2%, though this wasn't enough for US President Donald Trump who said the "enemy" Fed led by Jerome Powell had "no guts". Trade tensions with China eased when Trump postponed some tariff increases on consumer goods from China until December, though not before Trump declared China a currency manipulator and told US companies they "should leave China". House Speaker Nancy Pelosi initiated a formal impeachment inquiry against Trump for seeking to enlist Ukraine to smear leading Democrat presidential candidate Joe Biden. In economic news, a report showed the US economy expanded only 2.0% in the second quarter. The Congressional Budget Office said the US federal budget deficit is projected to reach more than US$1 trillion in fiscal 2020, two years earlier than previously predicted. The S&P 500 Index rose 1.2%.

European stocks rose after the ECB reduced the cash rate for the first time in three years – albeit by just a tenth of a percentage point to minus 0.5% – and announced it would restart quantitative easing in November. Gains were capped when political uncertainty rose in Italy and the UK and concerns grew about Germany's economy, Europe's largest. Italy's 14-month-old government between the right-wing League and the anti-establishment Five Star Movement collapsed and was replaced by an unlikely coalition between Five Star and the centre-left Democratic Party that looked even more fragile when former prime minister Matteo Renzi left the Democratic Party to start a new party. UK Prime Minister Boris Johnson unexpectedly shut down parliament for five weeks – a move declared unlawful by the UK's Supreme Court – to dare opponents of his Brexit strategy to force an election ahead of the October 31 deadline for the UK's departure from the EU. Economic reports showed the UK economy contracted 0.2% in the second quarter and Germany's economy shrank 0.1% over the three months, while the eurozone economy expanded only 0.2%. The Euro Stoxx 50 Index rose 2.8%.

Japanese stocks rose after the conservative coalition led by Prime Minister Shinzō Abe secured a majority of seats in elections for the upper house. Chinese stocks edged down after a report showed the economy grew an annualised 6.2% in the June quarter, the slowest rate in nearly three decades. Australian stocks broke through their high of 2007 after the Reserve Bank of Australia in July reduced the cash rate for a second consecutive month to stir the economy. Japan's Nikkei 225 Index added 2.3%. China's CSI 300 Index lost 0.3%. The S&P/ASX 200 Accumulation Index jumped 2.4%. The MSCI Emerging Markets Index lost 5.1% after Argentina defaulted on US$101 billion of debt.

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

Strategy Commentary

The strategy recorded a positive return for the September quarter. The biggest contributors included the investments in Alphabet, Apple and Starbucks. Alphabet climbed after sales growth in the second quarter rebounded from a sluggish first quarter and the Google parent announced a US$25 billion share buyback. Apple gained after the company forecast robust sales growth from the new iPhone models. Starbucks surged after better-than-expected sales in the US and China helped the coffee chain record its fastest global sales growth in three years of 6% on a same-stores basis.

The biggest detractors were the investments in SAP, Facebook and HCA Healthcare. SAP fell after the company reported lower margins and a decline in growth in new cloud bookings for the second quarter. Facebook slid on the increased scrutiny from federal lawmakers and federal and state regulators. HCA Healthcare dropped after the US hospital chain's earnings report for the second quarter disappointed due to an unfavourable shift in the medical-surgical mix of operations and more political uncertainty was priced into health stocks as Democratic presidential candidates offered different proposals to improve the US health system.

Stock story: LVMH

A French-based company with iconic luxury brands sought by the Chinese.

France-based LVMH, which sells fashion, alcohol, watches, jewellery and cosmetics, is the world's leading personal-luxury-goods company. In its 2018 annual report, the company acronymed for the fashion name Louis Vuitton and the Moët Champagne and Hennessy Cognac labels confirmed what many people in the industry knew. The excerpt that "provisions for impairment of inventories ... are generally required" was judged an admission LVMH destroys its goods (apart from wine and spirits) rather than sell them at a discount.[1]

Think about that. As do other personal-luxury icons that control the distribution of their goods via their own stores, LVMH refuses to reduce prices on its designer goods to clear stock. The company, which achieved record sales of 46.8 billion euros in 2018, knows that consumers the world over so aspire to own its often-centuries-old brands they will pay the price the company sets.

Truth be told LVMH doesn't end up with much unwanted stock. The company that also controls the production of its goods is struggling to keep up with demand. Sales are strong for the conglomerate that includes the Christian Dior, Fendi and Veuve Clicquot brands because the world's expanding middle class is keen for luxury goods.

Above all, LVMH's revenue has risen at a 15% annual pace[2] in recent times largely because the group that consists of 75 'houses' or brands across six divisions is enjoying "unheard of growth rates" in China, in the words of Vuitton CEO Michael Burke.[3]

China, where Louis Vuitton opened a store in 1992, has long been the world's most promising new market for consumer companies. LVMH, which has posted record revenue and profits and increased its dividend so far in 2019, now earns about 33% of its revenue from Chinese consumers.

That percentage is likely to grow. US consultancy Bain & Company forecasts that the Chinese share of the 260-billion-euro personal-luxury market will grow from 33% in 2018 to 45% in 2025, by when the market will be worth about 340 billion euros. Of note is that in seven years, 46% of purchases by Chinese are expected to be struck in Mainland China compared with 24% in 2017. (The balance is purchases by Chinese travellers.)[4]

LVMH shares have surged to record highs in 2019 on such buoyant prospects. Investors judge the company that wants to protect and transmit 'savoir-faire' to the world has the right mix of brands synonymous with creativity, artisanship, heritage and quality for the fast-growing luxury market.

Some qualifications: LVMH would be vulnerable to any political or economic disruption in China, as it would be to any European, US or global recession. For all its maisons, the business pivots around the three brands represented in its name and Veuve Clicquot, while 76% of earnings derive from just two of its six divisions; namely, 'fashion and leather goods' and 'wines and spirits'. The personal-luxury market is hyper-competitive in most segments so LVMH must constantly refine its offerings (including its e-retailing capabilities) and revamp its marketing strategies to hold market share. That LVMH has five brands younger than five years old and has the savvy to use Rhianna to launch Fenty Beauty products and record 500 million euros in sales in the first year shows the company can stay relevant. LVMH could get better at controlling costs. In Europe, the luxury-goods industry is under pressure to limit its environmental damage.

Even allowing for these risks and challenges, LVMH's great advantages – iconic brands produced and distributed under its control that earn healthy margins on growing sales – position the company well for the foreseeable future. Especially for one where the Chinese are richer.

Heritage abounds

The oldest brand in the LVMH group is the Château d'Yquem wine label, which dates from 1593 when the Sauvage family bought the property and converted it into a winery. While LVMH's history can be extended to more than four centuries, the modern story starts in 1987 when Moët Hennessy merged with Louise Vuitton. Two years later came another significant event; the company ended up under the control of Bernard Arnault, still LVMH's chairman and CEO.

Arnault's ambition when he took charge was to create a conglomerate of luxury brands – and he relentlessly pursued his vision (and become Europe's richest person as a result). In 1994, for instance, LVMH bought the Guerlain makeup label. Three years later, the company bought fashion-label Marc Jacobs makeup and perfume and cosmetics retailer Sephora. Other acquisitions include Pink Shirtmaker London in 1999 and Italian fashion house Fendi in 2001. And so on to the purchases of Italian jewellery brand Bulgari in 2011, Christian Dior in 2017 and the Belmond luxury hotel chain in 2018.

LVMH these days is structured along six divisions. Fashion and leather goods represented by the Louis Vuitton brand is the largest source of revenue, bringing in 39% of sales in 2018. 'Selective retailing', which includes Sephora, the duty-free chain DFS and Le Bon Marché Rive Gauche department store in Paris, accounted for 29% of sales. The other personal luxury divisions are wines and spirits, 'watches and jewellery' and 'perfumes and cosmetics'. The sixth is 'other activities,' which includes the Royal Van Lent shipbuilding business and the media assets, the *Les Echos* and *Le Parisien* newspapers and French commercial station *Radio Classique*.

LVMH controls all key aspects of these units including, of course, the decisions not to discount and what to destroy.

Sources: Company filings and website, Bloomberg and others were noted.

[1] LVMH. Financial statements. Consolidated financial statements. 31 December 2017. 1.16. Inventories and work in progress. Page 12. The full statement read: Provisions for impairment of inventories are chiefly recognised for businesses other than wine and spirits. They are generally required because of product obsolescence (end of season or collection, expiration date approaching, etc.) or lack of sales prospectsr.lvmh-static.com/uploads/2018/02/comptes-consolides-2017-lvmh-va.pdf

[2] Group revenues rose 15% in the second quarter of 2019 compared with the same period a year earlier.

[3] Bloomberg News. Louis Vuitton now sees "Unheard of" growth in China.' 5 June 2019. bloomberg.com/news/articles/2019-06-05/lvmh-lifts-luxury-shares-on-vuitton-s-unheard-of-china-growth

[4] Bain & Company. 'The future of luxury: A look into tomorrow to understand today.' 17th edition of Bain & Company's Luxury Study. 10 January 2019. bain.com/insights/luxury-goods-worldwide-market-study-fall-winter-2018/