MFG Global Equity (USD)

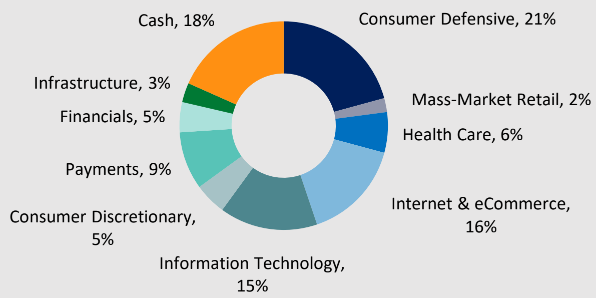
Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets [1]
Hamish Douglass	1 July 2007	USD $31,053.7 million	USD $38,904.5 million

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	23	1,643
Return on Equity	27	16
P/E Ratio (1 year forward)	18.5	15.3
Interest Cover	13	11
Debt/Equity Ratio	50	50
Active Share	88	n/a
Weighted Average Market Cap (USD million)	243,366	n/a

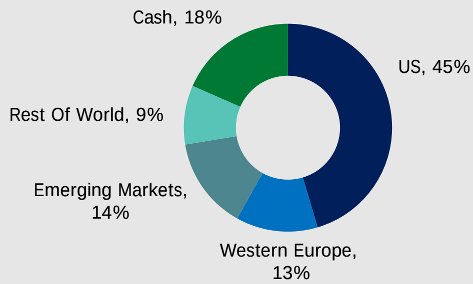
Top 10 Holdings[2]	Sector	%
Alphabet Inc	Internet & eCommerce	6.8
Facebook Inc-A	Internet & eCommerce	6.6
Kraft Heinz Co	Consumer Defensive	5.4
Visa Inc	Payments	5.2
Apple Inc	Information Technology	5.1
Lowe's Co Inc	Consumer Discretionary	5.0
Wells Fargo & Co	Financials	4.4
Starbucks Corp	Consumer Defensive	4.2
MasterCard Inc	Payments	3.8
Microsoft Corp	Information Technology	3.7
	TOTAL:	50.2

Sector Exposure[2]



Capital Preservation Measures[4]	3 Years	5 Years	7 Years	10 Years	Since Inception
Adverse Markets					
No of observations	11	14	22	35	40
Outperformance consistency	91%	93%	95%	97%	93%
Average return – Strategy	-2.2%	-1.3%	-1.0%	-3.9%	-3.8%
Average return – Benchmark	-4.0%	-3.4%	-4.7%	-8.2%	-8.0%
Down Market Capture	0.6	0.4	0.2	0.5	0.5
Drawdown					
Maximum Drawdown - Strategy	-7.3%	-7.3%	-7.3%	-30.2%	-36.0%
Maximum Drawdown - Index	-11.5%	-12.0%	-16.6%	-45.7%	-54.0%

Geographical Exposure[2]



Cumulative Performance[3]	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)	**4.0**	**14.3**	**10.7**	**11.2**	**14.0**	**13.8**	**11.9**
Composite (Net)	3.8	13.4	9.8	10.3	13.1	12.9	11.0
MSCI World NTR Index	1.7	11.1	8.5	9.9	8.8	6.3	4.6
Excess (Gross)	2.3	3.2	2.2	1.3	5.2	7.5	7.3
MSCI World Qual. Mix NTR	1.0	10.1	9.2	10.3	9.6	7.5	5.9
MSCI Min. Vol. NTR	0.9	7.1	9.0	9.7	9.5	7.5	5.9

Annual Performance[3]	CYTD (%)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Composite (Gross)	**3.0**	**25.2**	**4.7**	**4.2**	**6.6**	**30.8**	**21.6**	**11.9**	**18.3**	**39.4**	**-21.6**
Composite (Net)	2.6	24.2	3.9	3.4	5.7	29.8	20.7	11.0	17.4	38.3	-22.3
MSCI World NTR Index	0.4	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8	30.0	-40.7
Excess (Gross)	2.6	2.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5	9.4	19.1
MSCI World Qual. Mix NTR	-0.1	21.5	7.9	1.6	7.3	24.5	13.0	0.7	11.4	27.7	-35.4
MSCI Min. Vol. NTR	-0.3	17.3	7.5	5.2	11.4	18.6	8.1	7.3	12.0	16.4	-29.7

Supplementary Statistical Measures [5]	3 Years	5 Years	7 Years	Since Inception
Turnover	22.6%	21.8%	18.6%	14.7%
Beta	0.8	0.9	0.7	0.8
Tracking Error (% p.a.)	4.1%	4.0%	5.4%	6.8%
Standard Deviation – Strategy	9.5%	9.5%	9.8%	13.1%
Information Ratio	0.5	0.3	1.0	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.
^ 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.

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.

The USD is the currency used to calculate performance.

Market Commentary

Global stocks rose over the June quarter, to mark their eighth gain in the past nine quarters, after companies posted higher-than-expected earnings, especially the US internet giants, the US economy headed towards its 10th year of expansion, the Federal Reserve only tightened monetary policy as expected, Italy formed a workable coalition that said it wanted to stay with the euro, and Japan's central bank promised to keep up monetary stimulus. Gains were capped when US President Donald Trump imposed import restrictions that could lead to trade wars with the EU and China.

US stocks rose on buoyant company and economic news. Financial research and data company FactSet said that about 80% of companies announced earnings per share above mean estimates, the highest rate since FactSet began tracking this measure in 2008. In economic news, the Fed, as expected, in June raised the cash rate by 25 basis points to between 1.75% and 2%, the seventh rate increase since the onset of the global financial crisis. The central bank once again signalled four rate increases would be made over 2018, implying another two before the end of the year. A report showed a Fed gauge of inflation, the core personal consumption expenditure price index, rose 2% in the 12 months to May, the first time it has hit the Fed's price target since 2011. Reports pointed to the US economy expanding briskly in the June quarter, by when the economy would have completed nine years without recession. Among highlights, the jobless rate fell to an 18-year low of 3.8% in May, while retail sales grew 0.8% over the same month, their biggest gain in six months.

European stocks gained after a left-right populist coalition took control of Italy in May after elections in March (even if it is Eurosceptic), moderate Socialist Pedro Sanchez was installed as prime minister in Spain after Mariano Rajoy lost a vote of no confidence over a corruption scandal, and inflation reached the European Central Bank target of 2%, which justified the central bank's decision to end its asset buying by year end. Stocks fell steadily from mid-April highs as concerns about a trade war with the US mounted and Angela Merkel's coalition in Germany threatened to break apart over immigration policy.

Japanese stocks rose after the Bank of Japan said it would persist with monetary stimulus, reports on employment and manufacturing showed the economy might rebound from a contraction in the first quarter and the country was judged insulated from any trade wars. Chinese stocks plunged on concerns about the growing clash with the US on trade and on signs the economy is slowing. Emerging markets struggled as tighter US monetary policy boosted the US dollar and Argentina negotiated a IMF rescue.

earnings growth for the first quarter, which prompted it to boost guidance for fiscal 2018. Apple rallied following a result that showed an acceleration in services revenue and healthy iPhone revenue growth, an increase that was helped a few days later by news that the Warren Buffett-run Berkshire Hathaway had bought another 75 million Apple shares. Another boost was that The South China Post also reported the Chinese government has no plans to target US firms in China in response to the Trump administrations trade threats.

Strategy Commentary

The strategy recorded a positive return for the quarter. Stocks that performed best included the investments in Facebook, Visa and Apple. Facebook surged on a view that privacy issues surrounding user data wouldn't impede user and advertising growth, which showed gains in the first-quarter earnings report released in late May. Visa gained after higher consumer spending helped the payments company post higher-than-expected revenue growth of 11.5% and 30% earnings growth for the first quarter, which prompted it to boost guidance for fiscal 2018. Apple rallied following a result that showed an acceleration in services revenue and healthy iPhone revenue growth, an increase that was helped a few days later by news that the Warren Buffett-run Berkshire Hathaway had bought another 75 million Apple shares. Another boost was that The South China Post also reported the Chinese government has no plans to target US firms in China in response to the Trump administrations trade threats.

Stocks that lagged included the investments in Starbucks, eBay and Yum! Brands. Starbucks declined after disappointing sales growth in the US prompted the coffee chain to reduce outlets in its home market, sales growth in China disappointed and Moody's Investors Services downgraded the company's debt rating by one notch to Baa1 due to an increase in borrowing. Online retailer eBay fell after the US Supreme Court overturned a 1992 ruling that enabled internet retailers to avoid state sales taxes. Yum! Brands slid after the owner of KFC and Pizza Hut reported first-quarter comparable sales that missed estimates due to discounting across the fast-food industry.

Key Stock in Focus – Lowes

Lowes - A new shareholder is driving a challenge to The Home Depot's No. 1 ranking in the US home-improvement market.

In 1946, Carl Buchan was the part owner of a hardware store in North Carolina. Anticipating a post-World War II housing boom, Buchan envisaged creating a hardware chain, so he bought out his brother-in-law. More than 70 years later, his efforts have culminated in Lowe's, the US's second-largest chain of home-improvement and hardware stores.

Buchan and his successors have done much right in the past seven decades to create a retailer with 2,154 stores across North America that in fiscal 2017 recorded a net profit of US$3.7 billion from US$68.6 billion in sales.

Recent times have been buoyant for Lowe's and other housing-related businesses. The nine-year expansion of the US economy and the interrelated recovery in housing have buoyed a retail segment that has proved relatively insulated from internet disruption.

Convenience is a big reason why the industry is internet-proof. A large number of stores in close proximity to much of the population service people when they need advice on technical products. The shopping mission often includes bulky goods or urgent purchases that are best done in person. Costly consumables and DIY projects require product selection and planning, both easier done in store. On top of that, demand has been strong for home-related professionals who prefer to buy in store rather than on the internet. The favourable environment has helped Lowe's boost revenue by 20% over the past three years though this performance of late has been more sluggish, particularly in the first quarter of 2018. The company's share price climbed 37% over the past calendar three years.

Lowe's, however, has an overarching problem in terms of its operational performance. The company isn't judged as well run as the No. 1 home-improvement company. The Home Depot, based in Atlanta, which recorded a net profit of US$8.8 billion on sales of US$100.9 billion in fiscal 2017, is better at retail basics. Home Depot attracts more people to its stores. The company converts more of those who enter into customers. It entices those supporters to spend more as a proportion of their household budgets. It turns a greater portion of revenue into profits. Home Depot has boosted its same-store revenue for nine consecutive years and the share price has climbed more than Lowe's in recent years; it rose 83% over the past three calendar years – more than double the gain in Lowe's. Lowe's challenge has long been how to stop being overshadowed by Home Depot.

Enter DE Shaw, a New York-based hedge fund. In January this year, Shaw announced it had spent US$1 billion to buy about 1% of Lowe's and it would use this shareholding to shake up the company. Shaw quickly engineered the appointment of three new directors to the board of Lowe's. One of the new directors is David Batchelder, co-founder of Relational Investors, who when on the board of Home Depot, a decade ago helped turn around that company. In April, Shaw aided the search to replace departing Lowe's CEO Robert Niblock, who had spent 13 years in the role. And in May a new CEO, Marvin Ellison, who led retailer JC Penny from 2015 and who worked in senior roles at Home Depot for 12 years, was appointed. Investors can expect to be well rewarded if the new management can make Lowe's as honed as Home Depot. Management is confident that better execution of retail basics means Lowe's can.

To others, Home Depot has some advantages over Lowe's that will hobble Lowe's efforts to match its bigger rival. One hurdle is that Home Depot had a 15-year head start in placing large 'box' stores in the best locations in the best cities – and in the homeware and hardware segments, location amounts to a local monopoly. Other challenges for Lowe's include that housing-dependent businesses are hostage to macroeconomics. Any slowing in the economy and housing and all housing-related industries tend to struggle. The internet will always remain a potential threat.

But Lowe's under fresh guidance could surmount these challenges or be better placed to cope during any economic and housing downturn. Company insiders estimate that better online offerings, a more appropriate product offering, an enhanced customer experience, and superior servicing of builders and other professionals could reap an extra US$8 billion in revenue each year for Lowe's while costs could be reduced by some US$1 billion, especially by making its supply chain more efficient. Confidence that Lowe's can revamp itself is growing, even though the loss of customer traffic and other structural problems won't be easy to overcome. Evidence? 'Activist' investment firm, William Ackman's Pershing Square Capital Management, in May revealed it had bought US$1 billion worth of Lowe's shares.

Beyond the US

Lowe's became the US's – and the world's – second-largest home-related retailer by offering low prices and one-stop shopping. The company's margin is based on 'everyday low costs' in its supply chain, allowing it to offer profitable 'everyday low prices' to people who buy its products and services for home improvement, home décor, home maintenance, home repair, and remodelling and maintenance of commercial buildings.

Lowe's large-format stores host about 40,000 items over 214 million square feet (19.9 million square metres) of floor space that cater to the 'do it yourself' and 'do it for me' customers. The latter are professionals who cater for older and time-poor households whom Lowe's target via the LowesForPros.com website.

While it will always face competition from Home Depot, Lowe's is protected against other formidable competitors because it operates in a structured and stable duopoly market. Home Depot and Lowe's control about 24% of the market. The cheaper sources of supplies based on such buying power mean they can undercut smaller competitors. The pair's size alone gives them much bargaining power with suppliers.

Lowe's, which was listed in 1961, has a presence in Canada (since 2007) and Mexico (since 2010). For now, though, it's whether or not the company can meet basic goals such as getting more people into its US stores that will determine how fast goes the expansion that Buchan initiated seven decades ago.

Sources: Company filings and website.