MFG Global Equities

Strategy Update: 31 December 2013

Portfolio Manager Hamish Douglass	Total Global Equity Assets[1] USD $15,672.8 million
Inception date 1 July 2007	Composite Size[2] USD $15,004.7 million

USD Gross Performance[2]

	Composite %	Index %[3]	Excess Return %
1 Month	2.6	2.1	0.5
3 Months	8.9	8.0	0.9
6 Months	13.5	16.8	-3.3
1 Year	30.8	26.7	4.1
2 Years (p.a.)	26.1	21.1	5.0
3 Years (p.a.)	21.2	11.5	9.7
4 Years (p.a.)	20.5	11.6	8.9
5 Years (p.a.)	24.0	15.0	9.0
Since Inception (p.a.)	13.7	2.7	11.0
Since Inception	130.1	19.2	110.9

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.)	8.1%
Worst Drawdown - Composite	-36.0%
Worst Drawdown - Index[3]	-54.0%

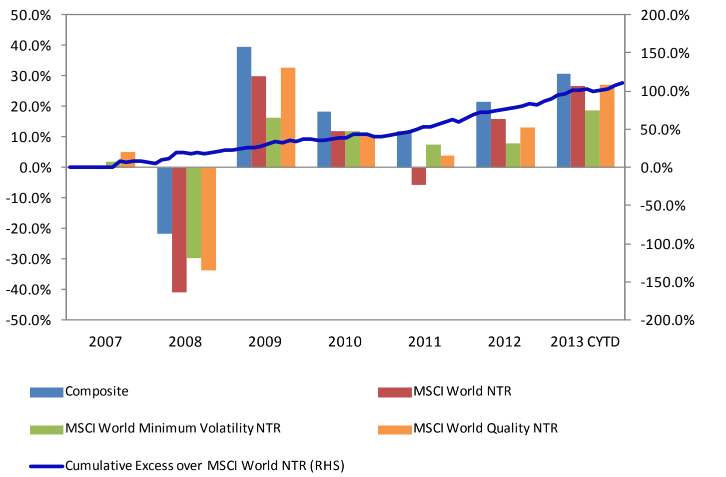
Strategy Fundamentals[4,5]

	Strategy[4]	Index[3]
Number of Holdings	27	1,596
Return on Equity	25	17
P/E Ratio (1 year forward)	16	16
Interest Cover	14	10
Debt/Equity Ratio	29	45
Active Share	89	

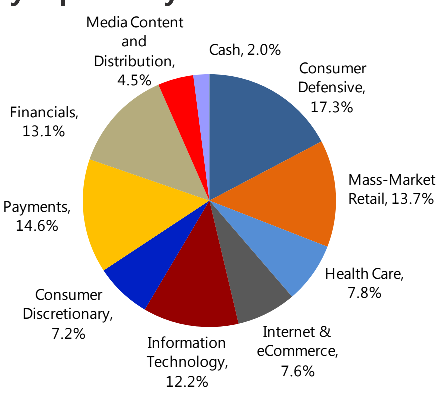
Top 10 Holdings[4]

	Sector	% of Strategy
eBay Inc	Information Technology	6.8
Oracle	Information Technology	6.1
Microsoft Corp	Information Technology	6.1
Lowe's	Consumer Discretionary	5.2
Target Corp	Consumer Discretionary	5.2
Visa Inc	Information Technology	5.0
Tesco Plc	Consumer Staples	4.7
Nestlé SA	Consumer Staples	4.6
DirecTV	Consumer Discretionary	4.5
Yum! Brands Inc	Consumer Discretionary	4.5

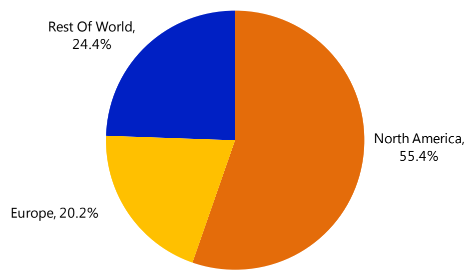
USD Calendar Year Performance against Style Indicies



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 Total Return Index (USD). Source: MSCI
[4] Representative Portfolio. ^Refer to the end of the document for further information.
[5] Source: UBS Portfolio Analytics.

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Market review for the quarter

In September, the economic backdrop was dominated by the uncertainty of the US government shutdown. However, once the political brinkmanship that had caused it began to dissipate, the rally that characterised earlier 2013 resumed.

As we moved through the quarter, further gains were fuelled by the commitments of central bankers to loose monetary policies. In the US, for example, the Federal Reserve initially maintained its rate of bond purchases, citing contained inflation, persistent labour market weakness and headwinds to growth resulting from October's government shutdown as justification (this was somewhat of a reversal of attitudes relating to the imminent bond-purchase 'tapering' that had been touted earlier in the year). Meanwhile, in Europe the ECB pointed to high unemployment and low inflation in its decision to cut rates, while the Bank of England, despite noting an economic improvement in the UK, also maintained its accommodative monetary policy setting. Elsewhere, Australia cut interest rates further, China saw more signs that its economy was stabilising and Japan saw inflation rise in response to its Abenomics policies (and a significantly weaker yen).

Despite the apparent change in attitudes earlier in the quarter, the Federal Reserve made the decision to taper its asset purchases in December; however, it did so while simultaneously emphasizing its commitment to accommodative policy. These actions gave investors renewed confidence in the US recovery and sent equity markets higher still.

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 31 December 2013, the Strategy consisted of 27 investments, with the top-ten holdings representing 52.8% of its asset value. During the quarter, the Strategy returned +8.9% before fees. This compares with the MSCI World Net Total Return Index (USD) (benchmark) return of +8.0%, resulting in relative outperformance of +0.9%. For the year ending 31 December 2013, the Fund returned 30.8% before fees, this compares to a benchmark return of 26.7%.

Over the quarter, the three stocks with the strongest returns in local currency were Google (28.0%), MasterCard (24.3%) and American Express (20.5%) while the three stocks with the weakest local currency returns were Danone (-6.0%), Tesco (-5.7%) and eBay (-1.6%).

There were no new additions to, or outright sales from, the Strategy during the period. However, portfolio construction was altered to reflect relative risk/return developments. Specifically, we reduced the positions in Novartis and Google to crystallise profits and used the proceeds from these sales to increase the positions in eBay, Visa, DirecTV and Target.

Key Stock in Focus - DirecTV

DirecTV is the largest pay TV distributor in the world, with a total of 37 million subscribers across the US and Latin America. The company operates almost purely as a TV distributor, with virtually no in-house content production.

DirecTV currently derives around 75% of its earnings from the US, where it is the second-largest pay TV provider, with 20% market share. The US market is very mature, with 87% of households subscribing to pay TV.

<u>TV viewing demand</u>

TV viewing is the most popular form of entertainment. In 2012, the average American watched over five hours of traditional (linear) TV per day. Despite the development of many competing forms of entertainment, such as video games, social networks, YouTube and Netflix (to name just a few), time spent watching linear TV has continued to increase.

Pay TV subscribers are very sticky. Although pay TV distributors have increased consumer prices above the rate of inflation every year for decades, even during the recent US consumer recession, this has never resulted in annual net subscriber losses for the industry.

<u>Pay TV competition & DirecTV's Competitive Advantage</u>

DirecTV's competitive advantage is derived from the lower capital cost per subscriber associated with satellite TV distribution compared to competing wireline pay TV distributors (cable and telco). This advantage has allowed DirecTV to win market share by offering superior packages with more channels of a higher signal quality (e.g. high-definition versus standard-definition), without charging a premium price (pay TV distributors offer broadly the same content). At the same time, its lower-cost network capacity has enabled the business to generate an average 72% pre-tax return on tangible capital over the last five years, while the two largest cable providers, Comcast and Time Warner Cable, have earned only 15% and 13% average returns, respectively, over the same period.

Going forward, the increased adoption of high-definition (HD), and the development of ultra-HD, will drive the need for distribution systems to increase their capacity. Importantly, this means that DirecTV's competitive advantage will be maintained. The lowest spec version of ultra-HD (4k) requires roughly four times the capacity of HD (using the same compression technology).

<u>Key Threats</u>

There are a number of potential threats to DirecTV's investment case, although we believe the current share price over emphasises these risks. The most significant threat to DirecTV's economic moat is the potential for a broad deployment of fibre-to-the-home networks, which would have significantly higher capacity than existing cable and satellite systems. However, we believe that the capital costs associated with building out such a network would be prohibitively high for a rational investor. We therefore judge the likelihood of a broad fibre upgrade in the US, at least in the medium term, to be low.

DirecTV's operating and financial performance has been very strong, generating EBITDA growth of 40% per annum over the last decade and repurchasing more than 60% of its share capital since it began its buyback program in 2006. We believe its market leading competitive positions will continue to drive strong returns and more than outweigh the near-term macroeconomic risks in Latin America.

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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.

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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 attractive 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.

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^ 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.

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