

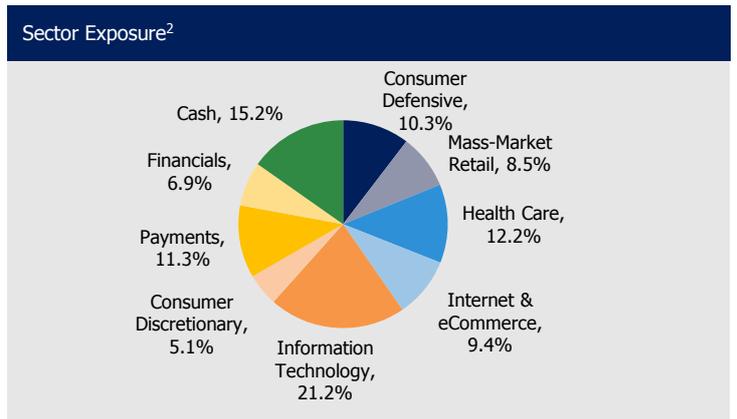
MFG Global Equity (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets ¹
Hamish Douglass	1 July 2007	USD \$26,290.7 million	USD \$30,861.0 million

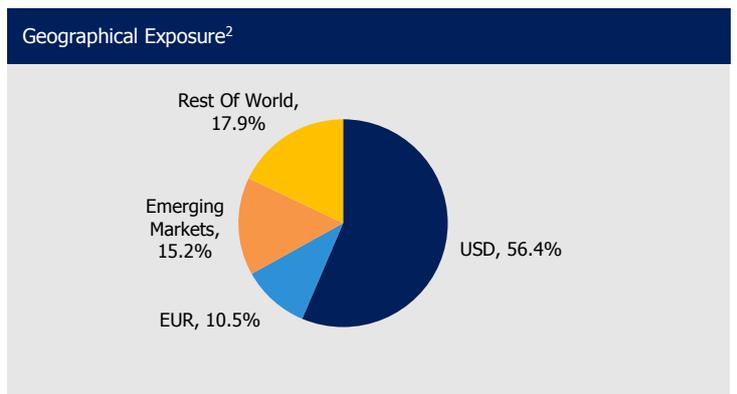
Objective	Approach
Capital preservation in adverse markets	High conviction (20-40 securities), high quality focus
Pre-fee return of 10%p.a. through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Relative volatility cap of 0.8^

Strategy Fundamentals ²	Strategy	Index
Number of Holdings	24	1,650
Return on Equity	23	13
P/E Ratio (1 year forward)	17.7	16.7
Interest Cover	18	10
Debt/Equity Ratio	29	54
Active Share	89	n/a
Weighted Average Market Cap (USD million)	201,287	n/a

Top 10 Holdings ²	Sector	%
Apple Inc	Information Technology	7.6
Alphabet Inc	Internet & eCommerce	5.4
Lowe's Co Inc	Consumer Discretionary	5.1
Visa Inc	Payments	5.1
Microsoft Corp	Information Technology	4.5
Wells Fargo & Co	Financials	4.3
eBay Inc	Internet & eCommerce	4.0
Facebook Inc-A	Information Technology	3.8
Oracle Corp	Information Technology	3.8
Nestle SA	Consumer Defensive	3.7
TOTAL:		47.3



Capital Preservation Measures ⁴	3 Years	5 Years	7 Years	Since Inception
Adverse Markets				
No of observations	11	14	22	37
Outperformance consistency	100%	100%	100%	95%
Average return – Strategy	-1.1%	-0.8%	-1.3%	-3.9%
Average return – Benchmark	-3.7%	-4.1%	-5.4%	-8.5%
Down Market Capture	0.3	0.2	0.2	0.5
Drawdown				
Maximum Drawdown - Strategy	-7.3%	-7.3%	-10.3%	-36.0%
Maximum Drawdown - Index	-12.0%	-12.0%	-19.6%	-54.0%



Cumulative Performance ³	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	Since Inception (p.a.)
Composite (Gross)	7.2	11.1	7.3	12.4	13.8	11.4
Composite (Net)	7.0	10.2	6.5	11.5	12.9	10.5
MSCI World NTR Index	6.4	14.8	5.5	9.4	8.6	3.7
Excess (Gross)	0.8	-3.7	1.8	3.0	5.2	7.7
MSCI World Qual. Mix NTR	6.2	12.0	7.2	10.0	9.8	5.2
MSCI Min. Vol. NTR	5.6	7.0	9.2	10.2	10.4	5.6

Annual Performance ³	CYTD	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007*
Composite (Gross)	7.2	4.7	4.2	6.6	30.8	21.6	11.9	18.3	39.4	-21.6	0.0
Composite (Net)	7.0	3.9	3.4	5.7	29.8	20.7	11.0	17.4	38.3	-22.3	-0.4
MSCI World NTR Index	6.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8	30.0	-40.7	-0.1
Excess (Gross)	0.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5	9.4	19.1	0.1
MSCI World Qual. Mix NTR	6.2	7.9	1.6	7.3	24.5	13.0	0.7	11.4	27.7	-35.4	1.0
MSCI Min. Vol. NTR	5.6	7.5	5.2	11.4	18.6	8.1	7.3	12.0	16.4	-29.7	1.0

Supplementary Statistical Measures ⁵	3 Years	5 Years	7 Years	Since Inception
Turnover	28.0%	22.0%	18.8%	15.9%
Beta	0.8	0.8	0.7	0.7
Tracking Error (% p.a.)	4.2%	4.4%	5.8%	7.0%
Standard Deviation – Strategy	9.6%	9.6%	10.9%	13.6%
Information Ratio	0.4	0.7	0.9	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 end of the document 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 using the MSCI World NTR Index.

^ Weighted average 3-5 year beta against MSCI World NTR USD Index.

* Returns are only for part year.

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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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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 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.

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Market Commentary

Global stocks hit record highs as they rose for a fourth consecutive quarter during the first three months of 2017 as US companies posted higher-than-expected earnings, President Donald Trump's proposed pro-growth policies fanned optimism about the US economy and mainstream parties held off populists in the elections in the Netherlands.

US stocks rose as companies overall reported that higher revenue had boosted earnings-per-share growth. In March, the Fed raised the US cash rate by a quarter point for the third time since the 2007-09 recession (to between 0.75% and 1%). Among observations released over the quarter were that the US economy expanded at an annualised pace of 2.1% in the fourth quarter as consumer spending surged at a 3.5% rate. Others showed that the economy added 628,000 jobs in the three months to February, when the jobless rate stood at 4.7%. The S&P 500 Index rose 5.5%.

European stocks advanced as companies posted solid earnings growth and incumbent Dutch Prime Minister Mark Rutte thwarted a challenge from anti-EU populist Geert Wilders's Freedom Party. Reports over the quarter showed that loose monetary policy, a lower euro and an easing of fiscal austerity have perked up the eurozone economy. Reports showed the eurozone economy expanded 1.7% in 2016, consumer prices rose 1.5% in the 12 months to March and the jobless rate fell to an eight-year low of 9.6% in January. The Stoxx Europe 600 Index added 5.5%.

At an industry level within the benchmark, IT, healthcare and consumer-discretionary stocks advanced the most while energy, due to a 6% drop in the oil price, was the only sector to decline.

Strategy Commentary

The portfolio recorded a positive return for the quarter where the largest contributors to performance were the investments in Apple, Facebook and Lowe's.

Apple rose 24.5% over the quarter on a better-than-expected first-quarter update that showed iPhone popularity remains high as the installed base is growing at double-digit rates and the company is seeing record numbers of people switching from Android devices. Engagement with the IOS ecosystem is increasing as App store sales grew 43% in the quarter to an all-time high. Facebook increased 23.5% after fourth-quarter revenue exceeded expectations with 51% growth. Facebook's users and engagement is growing and this is being successfully monetised via advertising revenue, particularly via mobile. Lowe's climbed 16.1% after fourth-quarter results saw strong comparable store growth of 5%, driven by buoyant housing and home-improvement spending.

Over the quarter, the stocks that detracted from returns included investments in Target, Tesco and Qualcomm.

Target declined 26.5% following the release of the company's fourth-quarter earnings that showed comparative sales were negative over the holiday period and the company's management announced significant downgrades to earnings expectations. This was due to implementation of a strategic initiatives that will entail resetting profitability to contend with a more competitive retail environment. Tesco fell 10.3% after the release of mixed trading statements from the company and the announcement of its intention to acquire UK-based food wholesaler Booker added to business complexity compared with the increased simplicity of recent years. Qualcomm slid 11.3% after Apple joined those launching legal action against the company based on claims of unfair royalty practices regarding its baseband chips.

Movements in the S&P 500 and Stoxx Europe 600 indices and stocks are in local currency.

Key Stock in Focus - Facebook



Facebook is the world's leading social network and is now worth over US\$400 billion by market cap thanks to a more than tripling in revenue over the past three years. The company's competitive advantages point to more success ahead.

Facebook has built a position as the world's core social platform by attracting 1.9 billion users each month, about 30% of the world's population it can reach given that the company's network has been banned in China since 2009. Of this number, 1.2 billion people visit the core Facebook property each day. Facebook's other properties – WhatsApp, Messenger, and Instagram – have 1.2 billion, 1 billion and 600 million users each month respectively.

The scale and pervasiveness of Facebook's platform is unique and we believe non-replicable. The company benefits from a strong network effect, which means the more people join the more valuable the network becomes to all users. Facebook users stay loyal because they can spend years building their online social community, participating with countless posts, photos, comments, 'likes' and events on the platform. The 'news feed' is unique for each user, filled with relevant content from friends and other connections. The last direct challenge to Facebook was in 2011 with the launch of Google+ but it was already too late. Even with the might of Google behind it and arguably Google+'s better functionality, the network effect had already made Facebook uncatchable. Such victories highlight how Facebook is a uniquely advantaged global digital platform.

Facebook could always fall short of expectations, of course. The amount of time users spend on Facebook may not grow as fast as expected and with it reduce the growth in advertising that Facebook can display to users. One way this could happen is if alternative platforms improve their ability to deliver interesting third-party content to users. Improved artificially intelligent assistants, like Siri or Google Assistant, may deliver competitive personalised content that takes time share from Facebook's news feed. Another potential downside is that research and development costs and investments in non-core ventures could erode Facebook's margins. But Facebook appears well positioned to overcome any challenges.

Highly engaged users

Two attributes in particular indicate a bright future for Facebook. The first is that Facebook users are highly engaged. In April 2016, Facebook revealed that the average user spends 50 minutes per day between Facebook, Instagram and Messenger, dwarfing competing social platforms, and that this number is growing at double-digit rates.

Another way to look at Facebook's engagement is the share of its users who visit daily. Even as the number of its monthly active users has grown from 600 million in 2010 to 1.9 billion in 2016, the share of these users who visit its properties daily has increased from 54% to 66%. That means more users are visiting more often.

Facebook competes for people's time and engagement with all other media, including TV, print, radio, messaging platforms and YouTube and yet time spent on Facebook properties keeps growing. New social networks, such as Snapchat, and messaging services, such as Line, have threatened engagement on Facebook as they have expanded and added functionality. However, despite the fresh competition, Facebook's engagement keeps rising.

Advantaged in advertising

The second reason we are confident about Facebook's outlook is that the company is skilled at exploiting its network for advertising in three ways. Facebook's big advantage in advertising is that its ad-targeting capabilities are best in class. By participating on the social network, users provide to Facebook a stream of information about themselves, others, issues and brands with whom they interact, their location and their intentions. This data is only available to Facebook and is valuable to advertisers. Armed with this exclusive data, marketers can pinpoint advertising campaigns. A wedding planner, for example, might only want to show ads to women who are engaged living in the Gosford area. To target the same audience on TV the wedding planner might need to reach all women aged 20 to 50 across regional New South Wales. Facebook's ability to target such niches for advertisers will improve over time as technology advances and it collects more and richer data.

The next advantage with advertising, which admittedly is generic to all internet-based media, is that Facebook has a better ability to measure ad performance than offline media like TV, radio and print. Online advertising better measures the effectiveness of advertising by monitoring the clicks that follow online ad exposures, and by monitoring offline store visits. Providing evidence of the return of money spent on advertising campaigns on Facebook gives marketers the confidence to increase their spending on the platform, often by reallocating it from traditional media.

Facebook's other advantage with advertising is that it (and Google) are well positioned for the shift to mobile advertising such that in fiscal 2016 when 97% of Facebook's revenue of US\$27.6 billion was generated from selling advertising, primarily on user news feeds, 84% was delivered on a mobile device. Mobile has grown to an estimated 20%¹ of people's media time (in the US); however, the smaller screen size has made effective advertising challenging on the devices. While few companies have found a solution, Facebook's news feed ads and Google's search ads work well. The result is that Facebook now boasts a share of about 32% of US mobile advertising spend compared with 6% on desktop².

Long runway

We expect Facebook's core business to grow at high rates. The number of Facebook users will likely increase, particularly in emerging markets, assisted by increasing smartphone penetration and better connectivity in these areas.

We anticipate engagement of users on the core Facebook properties will rise as Facebook optimises its services. Facebook's primary service, its news feed, aggregates socially targeted content – both user-generated and professional. Based on individual interaction with this content – clicks, comments and 'likes' etc. – Facebook tailors a unique experience for each user aimed at optimising engagement. It is constantly testing content and tweaking its placement algorithms.

Facebook contains some valuable stakes in nascent businesses that augur well for future profits. Its messaging platforms, Messenger and WhatsApp, each have over one billion monthly users yet currently generate no sales, while similar messaging platforms in Asia are already earning vast revenue. Facebook has invested early into virtual reality to shape the evolution of a new content format. Finally, advertising to targeted searches of its unique social database could prove extremely valuable to marketers, particularly when complemented by expected developments in artificial intelligence and Facebook's digital assistant, M.

Facebook's core business alone presents an attractive investment. These additional businesses provide the potential for material additional upside as Facebook offers more and better services to its billions of engaged users.

¹ Source: CFO Sandberg on Q1'15 earnings call.

² Source: Company filings, MagnaGlobal estimates, Magellan estimates.