

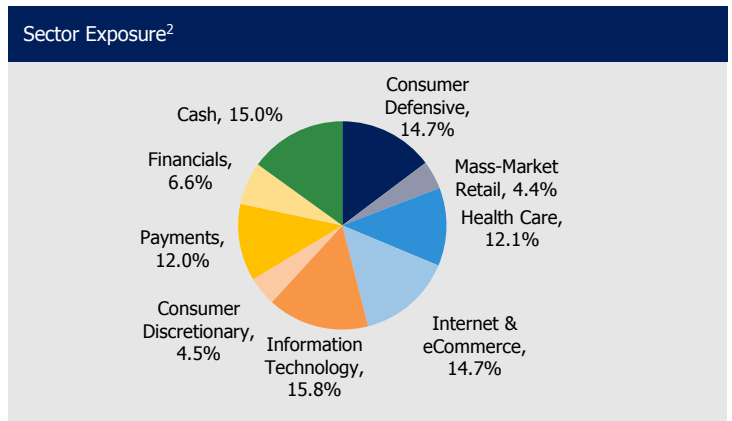
MFG Global Equity (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets ¹
Hamish Douglass	1 July 2007	USD \$27,508.6 million	USD \$32,458.6 million

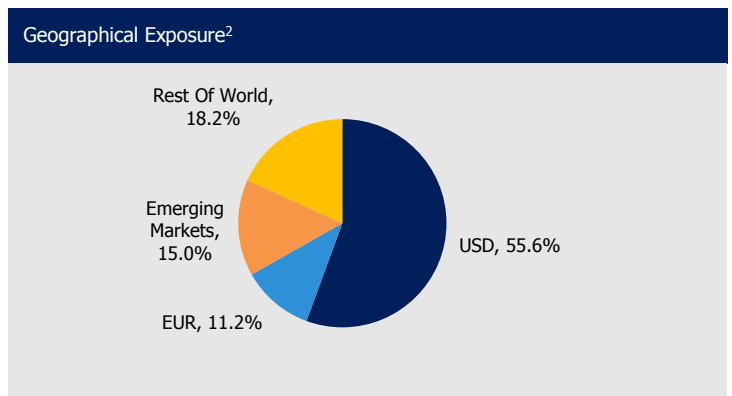
Objective	Approach
Capital preservation in adverse markets	High conviction (20-40 securities), high quality focus
Pre-fee return of 10%p.a. through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8^

Strategy Fundamentals ²	Strategy	Index
Number of Holdings	23	1,656
Return on Equity	25	14
P/E Ratio (1 year forward)	18.1	16.5
Interest Cover	15	10
Debt/Equity Ratio	32	53
Active Share	89	n/a
Weighted Average Market Cap (USD million)	215,568	n/a

Top 10 Holdings ²	Sector	%
Apple Inc	Information Technology	7.2
Alphabet Inc	Internet & eCommerce	5.9
Visa Inc	Payments	5.1
Facebook Inc-A	Internet & eCommerce	4.9
Lowe's Co Inc	Consumer Discretionary	4.5
Microsoft Corp	Information Technology	4.5
Wells Fargo & Co	Financials	4.1
Oracle Corp	Information Technology	4.0
eBay Inc	Internet & eCommerce	3.9
Nestle SA	Consumer Defensive	3.9
TOTAL:		48.0



Capital Preservation Measures ⁴	3 Years	5 Years	7 Years	Since Inception
Adverse Markets				
No of observations	11	12	20	37
Outperformance consistency	100%	100%	100%	95%
Average return – Strategy	-1.1%	-0.9%	-0.9%	-3.9%
Average return – Benchmark	-3.7%	-3.6%	-5.1%	-8.5%
Down Market Capture	0.3	0.3	0.2	0.5
Drawdown				
Maximum Drawdown - Strategy	-7.3%	-7.3%	-7.3%	-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.)	10 Years (p.a.)	Since Inception (p.a.)
Composite (Gross)	5.2	20.7	8.4	13.6	16.3	11.7	11.7
Composite (Net)	5.0	19.7	7.6	12.7	15.4	10.8	10.8
MSCI World NTR Index	4.0	18.2	5.2	11.4	11.4	4.0	4.0
Excess (Gross)	1.2	2.5	3.2	2.2	4.9	7.7	7.7
MSCI World Qual. Mix NTR	3.8	14.6	6.9	11.5	12.1	5.5	5.5
MSCI Min. Vol. NTR	3.4	5.2	8.7	10.9	11.9	5.8	5.8

Annual Performance ³	CYTD	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007*
Composite (Gross)	12.8	4.7	4.2	6.6	30.8	21.6	11.9	18.3	39.4	-21.6	0.0
Composite (Net)	12.3	3.9	3.4	5.7	29.8	20.7	11.0	17.4	38.3	-22.3	-0.4
MSCI World NTR Index	10.7	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8	30.0	-40.7	-0.1
Excess (Gross)	2.1	-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	10.2	7.9	1.6	7.3	24.5	13.0	0.7	11.4	27.7	-35.4	1.0
MSCI Min. Vol. NTR	9.1	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	26.5%	21.1%	18.4%	15.1%
Beta	0.9	0.9	0.7	0.7
Tracking Error (% p.a.)	4.2%	4.0%	5.8%	7.0%
Standard Deviation – Strategy	9.8%	9.2%	10.3%	13.5%
Information Ratio	0.8	0.6	0.8	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.

^ 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 this calculation.

* 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 set record highs in the June quarter after US companies posted better-than-expected earnings for the first quarter, readings showed the US economy was expanding sufficiently and the Federal Reserve reconfirmed that monetary policy would only be tightened gradually. Gains were capped when higher bond yields and the Conservative Party's unexpected loss of its parliamentary majority in the UK election undermined European stocks.

In the US, the Fed raised the cash rate by a quarter point to between 1% and 1.25% and outlined a plan that was seen as credible to reduce its balance sheet. Economic reports released over the quarter were judged as passable. They showed the US economy expanded at an annual pace of 1.4% in the first quarter and that 362,000 jobs were added from March to May, while the jobless rate fell to a post-crisis low of 4.3% in May. The S&P 500 Index rose 2.6%.

In Europe, the Conservatives were only able to form a minority government in the UK and talk is mounting of another general election before too long. Bond yields rose after the European Central Bank said the reflating economy might allow it to reduce its asset purchases in early 2018. The German 10-year government bond yield, for example, rose from 0.20% to 0.46% over the three months, while a report showed the eurozone economy expanded 0.6% in the first quarter, and 1.9% from a year earlier, thanks to a rise in investment. Stock losses were limited as investors were reassured when the pro-EU Emmanuel Macron defeated the anti-euro populist Marine Le Pen in the French presidential election that was held over two rounds in April and May. The Stoxx Europe 600 Index slid 0.5%.

At an industry level within the benchmark, healthcare, industrials and financials performed the best while energy and telecoms declined.

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

Strategy Commentary

The portfolio recorded a positive return in the quarter. At an industry level, investments in technology companies contributed the most.

At a stock level, the best performers included investments in PayPal, McDonald's and Nestlé. PayPal gained after better-than-expected first-quarter earnings allowed the company to boost annual guidance and PayPal announced a US\$5 billion share-repurchase program. McDonald's jumped after first-quarter same-store sales growth beat expectations due to pleasing growth in the US where the company's more-focused execution is winning customers. Nestlé rose 11% in anticipation that cost-saving measures will boost profit margins.

Stocks that detracted included investments in Lowe's and Tesco. Lowe's fell after the US home-improvement chain posted first-quarter comparable-store growth that was below that of The Home Depot. Tesco, despite announcing better-than-expected like-for-like growth during its June trading update, fell along with other bricks-and-mortar retailers when Amazon's purchase of Whole Foods signalled further disruption for traditional retailers.

Key Stock in Focus - Paypal



PayPal – making payments on the internet safe

In the late 1990s, several tech whiz kids in the US were searching for a way to disrupt finance. Elon Musk's initial attempt was to create one of the world's first online banks in 1999. The year after, Musk teamed up with Peter Thiel and Max Levchin who had devised a way for people to send money via Palm handhelds. Then came their brainwave – formulate a way for people to buy over the internet without having to hand over credit-card details every time.

Thus, PayPal was born in 2000. Nowadays, the company is the biggest global digital wallet and a leader in mobile payments. The company operates across more than 200 markets, processing transactions in more than 100 currencies. In fiscal 2016, PayPal's 188 million 'active' account holders conducted more than 6.1 billion transactions worth US\$354 billion in payments on PayPal's digital platform, a 28% increase from the previous year. Of this, US\$102 billion (two billion transactions) were via mobile devices.

PayPal's success is built on the way it allows people to purchase online quickly and securely after giving their financial information only once to PayPal. The company never divulges this information to merchants. PayPal allows its customers' digital wallets to be loaded with credit cards, debit cards and consumers' transaction bank accounts, so that they can have various payment options. PayPal's security and ease of use encourages more online shopping and reduces the risk for merchants that people will abandon online-shopping carts because they must enter payment details on the merchant's website, along with concern that payment details might be hacked from the merchant. PayPal is especially useful for smaller merchants that would find it difficult and expensive to obtain similar payment services through banks.

PayPal's largest source of profit margin is the spread between negotiated acceptance fees paid by merchants (a percentage of each transaction) and the fees PayPal pays to the consumers' payment source (say, issuers of credit cards). PayPal's operating margins are lowest when customers pay with credit cards because the fees charged by the card issuers are notably higher than other payment sources. Margins are highest when customers use transaction bank accounts, as the fees PayPal pays to banks to withdraw payment from a transaction bank account are negligible. PayPal's revenue in fiscal 2016 reached US\$10.8 billion, an increase of 21% from the previous financial year. PayPal is expected to record continued strong revenue growth in coming years as societies become increasingly cashless and ecommerce further penetrates global commerce. The scalable nature of PayPal's cost structure, along with the network effect benefits for revenue growth, leads us to expect that over time PayPal's operating margins will expand significantly.

PayPal's earnings outlook would be even stronger if the company could build a presence in physical stores where the American Express, MasterCard and Visa networks dominate. The lack of an offline presence stymies PayPal's ability to create the habit among its customers of making PayPal their default payment instrument, no matter the merchant or location. Another challenge for PayPal is that competition in the digital-

wallet space is increasing. MasterCard and Visa have introduced digital wallets, MasterPass and Visa Checkout, which mimic many of PayPal's user-friendly features. Android Pay, Apple Pay and Samsung Pay now offer mobile and in-app payment facilities via their mobile handsets and through more than 1,000 applications. Microsoft and Facebook have plans to develop payment methods, particularly for mobiles. PayPal, however, with its existing infrastructure and trusted brand, is well placed to fight off such threats and build an offline presence.

Leading the digital-payments revolution

PayPal's big break came in 2000 when eBay allowed the company to promote its services on the online shopping and auction site. PayPal's ease of use for eBay customers and small merchants that had previously found digital payments difficult, particularly across borders, fostered the rapid growth of eBay's small merchants and transactions; so much so that eBay bought PayPal in 2002 only months after PayPal listed on the Nasdaq. The mutually beneficial relationship between eBay's marketplace and PayPal's enablement of digital payments allowed PayPal to become the only new successful global payment network since the launch of MasterCard in the 1960s.

In 2015, PayPal was spun out of eBay and re-listed. This renewed independence has allowed PayPal to focus on its core capabilities in an increasingly fluid and competitive market. Independence from eBay also permits PayPal to target new clients, such as large retailers, that would have previously been reticent, as eBay is a competitor. PayPal still benefits from a service agreement with its former parent, which provides some 16% of PayPal's total payments volume.

It is extremely hard to establish a payments network that could compete with American Express, MasterCard and Visa because an entrant would need to be simultaneously accepted by consumers and merchants. This requires mass awareness, simplicity of payment, technology ubiquity and an ability to meet arduous customer and merchant servicing needs and regulatory requirements. Many companies and large consortia, including groups of very large merchants and some of the world's largest telecoms, have tried to create payment networks over the years and all have failed.

Now that PayPal belongs among the global payment networks the company stands to benefit from the decades-long global trend towards a cashless society. The means of payment has shifted from cash and cheques towards electronic payments due to convenience, necessity as commerce shifts to online, and public policy.

This trend has a long way to go. Cash still comprises 50% of all payments in many developed economies and more than 90% in developing countries.

PayPal's competitive strength is in online payments, where it has built a strong brand position with consumers and merchants. Indeed, it has recently been recognised as a top-100 global brand by Interbrand. Recognition and increasing usage are reflected in sustained extraordinarily high payments volume growth. Over the past three years, PayPal has experienced more than 20% compound growth in revenue and operating profit.

PayPal has invested in online and mobile capabilities by buying Braintree and Paydiant, which provide merchants with leading capabilities in mobile payments and loyalty programs. It is

rolling out its One Touch functionality globally, which further simplifies the payment process on devices and operating systems to just that; one touch of a button to process a purchase, with no further details entered by the customer.

While PayPal's founders have moved on from their creation, their ambition to shake up the payments industry still drives PayPal.