MFG Global Equity (USD)

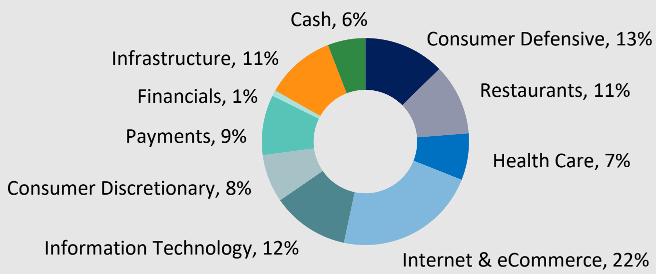
Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets [1]
Hamish Douglass	1 July 2007	USD $37,904.0 million	USD $50,390.9 million

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	27	1,638
Return on Equity	30	16
P/E Ratio (1 year forward)	23.7	17.1
Interest Cover	14	10
Debt/Equity Ratio	79	53
Active Share	85	n/a
Weighted Average Market Cap (USD million)	352,513	n/a

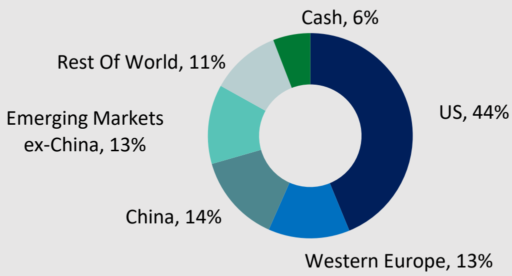
Top 10 Holdings[2]	Sector[2]	%
Alphabet Inc	Internet & eCommerce	7.1
Microsoft Corp	Information Technology	6.8
Facebook Inc-A	Internet & eCommerce	6.6
Alibaba Group Holding Ltd	Internet & eCommerce	6.5
Starbucks Corp	Restaurants	5.7
Visa Inc	Payments	5.3
LVMH	Consumer Discretionary	4.7
Novartis AG	Health Care	4.2
MasterCard Inc	Payments	4.0
Yum! Brands Inc	Restaurants	4.0
	TOTAL:	54.9

Sector Exposure[2]



Capital Preservation Measures[3]	3 Years	5 Years	7 Years	10 Years	Since Inception
Adverse Markets					
No of observations	7	16	18	30	44
Outperformance consistency	86%	94%	94%	97%	93%
Average return – Strategy	-2.2%	-1.9%	-1.5%	-1.5%	-3.7%
Average return – Benchmark	-4.7%	-4.4%	-4.1%	-5.1%	-7.9%
Down Market Capture	0.5	0.4	0.4	0.3	0.5
Drawdown					
Maximum Drawdown - Strategy	-9.2%	-9.2%	-9.2%	-10.3%	-36.0%
Maximum Drawdown - Index	-13.4%	-13.4%	-13.4%	-19.6%	-54.0%

Geographical Exposure[2]



Cumulative Performance[4]	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)	7.8	29.7	17.7	12.2	13.9	14.8	12.5
Composite (Net)	7.6	28.7	16.7	11.3	12.9	13.9	11.6
MSCI World NTR Index	8.6	27.7	12.6	8.7	10.6	9.5	5.3
Excess (Gross)	-0.8	2.0	5.1	3.5	3.3	5.3	7.2
MSCI World Qual. Mix NTR	7.6	27.7	13.2	9.7	11.4	10.4	6.7
MSCI Min. Vol. NTR	3.0	23.2	12.3	9.9	11.3	10.6	6.8

Annual Performance[4]	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite (Gross)	29.7	0.4	25.2	4.7	4.2	6.6	30.8	21.6	11.9	18.3	39.4
Composite (Net)	28.7	-0.4	24.2	3.9	3.4	5.7	29.8	20.7	11.0	17.4	38.3
MSCI World NTR Index	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	15.8	-5.5	11.8	30.0
Excess (Gross)	2.0	9.1	2.8	-2.8	5.1	1.7	4.1	5.8	17.4	6.5	9.4
MSCI World Qual. Mix NTR	27.7	-6.5	21.5	7.9	1.6	7.3	24.5	13.0	0.7	11.4	27.7
MSCI Min. Vol. NTR	23.2	-2.0	17.3	7.5	5.2	11.4	18.6	8.1	7.3	12.0	16.4

Supplementary Statistical Measures [5]	3 Years	5 Years	7 Years	10 Years	Since Inception
Turnover	23.1%	20.9%	18.7%	15.6%	13.8%
Beta	0.8	0.8	0.8	0.7	0.8
Tracking Error (% p.a.)	4.8%	4.6%	4.5%	5.7%	6.7%
Standard Deviation – Strategy	9.7%	10.3%	9.9%	10.7%	12.9%
Information Ratio	1.1	0.8	0.7	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. 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 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.
4 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.
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 brands 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 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 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 fourth consecutive quarter in the three months to December after the Federal Reserve cut its key rate for the third time in four months to help an economy extend its growth record well into 2020, China and the US eased up on their trade war, US companies on average reported better-than-expected earnings for the September quarter and the UK election victory for the Conservative party settled that the country would leave the EU and meant the UK avoided the radical policies proposed by Labour. During the quarter, all 11 sectors rose in US-dollar terms. Information technology (+14%) rose the most while real estate (+1.2%) rose the least. The Morgan Stanley Capital International World Index gained 8.6% in US dollars.

US stocks rose to record highs over the quarter. In October, the Fed reduced its key lending rate by a quarter point to between 1.5% and 1.75% and signalled no more imminent reductions. Financial research and data company FactSet said that for the third quarter 75% of S&P 500 companies reported earnings per share above estimates, a 'beat rate' that is above the five-year average of 72%. In December, Chinese and US trade officials justified optimism when they came to a 'phase one' pact on trade that de-escalated a tariff war, notwithstanding that tensions between Beijing and Washington rose when US Congress in November passed almost unanimously a bill compelling Washington to support the protesters in Hong Kong. Economic news released during the quarter was largely upbeat. Reports showed the US economy expanded at 2.1% in the third quarter, US factory production rebounded by 1.1% in November to post its biggest monthly increase in two years, and the jobless rate fell to a 50-year low of 3.5% in September and November. In political news, almost all Democrat lawmakers in the House of Representatives voted to impeach President Donald Trump for abuse of power and obstructing Congress but failed to gain any Republican support during the two votes. Lawmakers in December passed spending measures that avoided a government shutdown as numbers released in October showed the US federal deficit widened to a seven-year high of US$984 billion in fiscal 2019, the fourth straight annual increase. The S&P 500 Index advanced 8.5%.

European stocks reached record highs on the UK election victory for the Conservatives and signs emerged the eurozone economy had stabilised. In the UK, parliament passed the measures required to ensure the country left the EU on January 31. In economic news, the eurozone's GDP rose 0.2% in the third quarter although industrial production fell 0.5% in October from September. The Euro Stoxx 50 Index added 4.9%.

In other markets, Japan's Nikkei 225 Index surged 8.7% on hopes that a fiscal package would help an economy that grew at an annualised rate of just 0.2% in the third quarter. China's CSI 300 Index gained 7.4% as concerns about the economy prompted China's central bank to cut its short-term lending rate for the first time in four years. The S&P/ASX 200 Accumulation Index rose 0.7% as recent rate cuts helped revive the housing market. The MSCI Emerging Markets Index rallied 11.4%.

Movements in indices are in local currency.

Strategy Commentary

The strategy recorded a positive return in the quarter. The biggest contributors included the investments in Alibaba, Apple and HCA Healthcare. Alibaba surged after the Chinese conglomerate reported a 40% jump in revenue for the third quarter, its Singles Day online retail promotion reaped a record 268 billion yuan (US$38.3 billion), and the company raised US$11 billion via an IPO in Hong Kong. Apple gained after the company boosted sales forecasts, citing the popularity of the latest iPhone 11, new services such as Apple TV+ and items such as AirPods, and the easing of trade tensions between Washington and Beijing meant iPhones avoided tariffs in China. HCA Healthcare jumped on higher inpatient and outpatient surgeries for the third quarter that removed doubts about the US hospital chain's outlook raised by a disappointing second-quarter result.

The biggest detractors included the investments in Anheuser-Busch InBev and McDonald's. AB InBev fell after the world's biggest brewer said that a decline in beer sales in Brazil, China and the US slowed profit growth in the third quarter and the company said it expects only "moderate" full-year earnings growth, down from "strong" before. McDonald's fell after sales growth in the US was slower than expected for the third quarter and the company fired its respected CEO because he had a (consensual) relationship with an employee.

Stock story: SAP

Who hasn't heard of 'real-time computing'? It's the achievement that became prevalent in the 1970s that meant computers could process to a deadline rather than be queued for batch processing at a later time. Among those that exploited the development was a German company called Anwendungen und Produkte in der Datenverarbeitung that was started in 1972 by five men who foresaw the value that business would place on technology.

Systems Applications and Products in Data Processing, as the name translates into English, or, better still, SAP, has come a long way since its founders, spearheaded by current chairman Hasso Plattner, developed software for real-time data processing that could be sold to many businesses as their central system.

SAP, based in Walldorf near Frankfurt, which earned 25 billion euros in revenue in fiscal 2018, is now one of the world's leading providers of software for businesses. The company's 'enterprise resource planning' software forms the nerve centres of businesses because it runs core 'back office' processes. SAP software manages analytics, customers, financials, human resources, payrolls and supply chains and brings in more than 80% of revenue. A recent focus of SAP's has been to steer clients to cloud-based software. So successful is SAP, the company's software is used by more than 425,000 customers in more than 25 industries and over 180 countries.

Nearly 50 years after its founding, SAP is well positioned for the future for five reasons. The first is that the company enjoys entrenched market positions in core enterprise applications and business intelligence software, especially among large companies in developed countries. These companies are likely to stay with SAP – the company enjoys low annual customer attrition rates – because switching costs are high. Businesses can't easily change software providers because it is tightly coupled with their business processes, often through customisation, and switching to a different software provider is risky and costly.

A second advantage is that SAP software products are world-beaters. They have been honed over time so they can work across departments within a company, throughout industries and in any location. A third advantage is that SAP has built a global sales and support network that few can match. Another plus is that the company enjoys economies of scale in research and development.

Lastly, SAP is well positioned to benefit from the accelerating uptake in cloud computing. These reasons help SAP generate significant excess returns and regular dividends for shareholders. The company, first listed in 1988, is likely to keep its shareholders happy for a while yet.

Challenges remain, of course. SAP faces strong competitors such as Oracle, Workday and Salesforce.com. The company has expanded its cloud portfolio largely through acquisition rather than organically. Executive turnover has been high recently. This was highlighted when CEO Bill McDermott resigned unexpectedly in October after 10 years in the role during which time he effected the drive into cloud computing. (McDermott was replaced by two co-CEOs, which is not an uncommon practice at SAP.)

But SAP didn't become Europe's most valuable tech company by market value without reason. The company has sustainable competitive advantages in growing IT segments that position it well to deliver for investors in coming years.

The cloud spree

SAP enters 2020 with myriad goals. The company wants to push its users onto its next-generation enterprise-resources planning software (called S/4HANA), expand the adoption of its broader software suite, triple its cloud business by 2023 and expand margins. On the latter point, the company is hoping to increase its operating margin, which stood at more than 30% in the second quarter of fiscal 2019, by 100 basis points a year until 2023.

To jumpstart the formation of a formidable cloud business, SAP has spent more than US$25 billion buying cloud-related companies since 2011. Companies bought include the first target, human-resources-based SuccessFactors for US$3.4 billion, expense-management firm Concur Technologies of the US for US$8.3 billion in 2014 and US$2.4 billion on sales-performance management provider Callidus Software in 2018. The most controversial purchase was the US$8 billion acquisition in 2019 of Qualtrics International, a US firm that sells customer 'experience-management' software, which SAP hopes will augment its back-office software as well as help it compete with the likes of Salesforce.com.

While SAP faces a challenge in integrating these assets, SAP's cloud computing business is thriving judged on sales numbers – revenue rose 38% (before currency impact) last year to five billion euros.
An added impetus for future sales is that in October SAP announced a new three-year partnership with Microsoft. In this arrangement, the company started in 1975 by Bill Gates and Paul Allen becomes a SAP preferred hyperscale partner and will resell SAP Cloud Platform alongside its Azure portfolio.

The tie-up is appropriate in the sense that it links two computing pioneers founded in the 1970s that are still giants of the IT world today.

Sources include company filings and website, Bloomberg and Hoover's, a Dun & Bradstreet Company.