

Magellan Global Fund offers investors an opportunity to invest in a specialised and focused global equity fund.

Objectives:

- To achieve superior risk adjusted investment returns over the medium to long-term.
- To minimise the risk of permanent capital loss.

We aim to find outstanding companies at attractive prices. We consider outstanding companies to be those 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. An outstanding company will usually have some (or ideally) all of the following characteristics:

- A wide economic moat. An economic moat refers to the protection around an economic franchise which enables a company to earn returns materially in excess of the cost of capital for a sustained period of time. A company's economic moat will usually be a function of some form of sustainable competitive advantage.
- A moderate to high potential to continue to re-invest capital into the business at high incremental returns. This is a very important metric which is often overlooked by investment analysts.
- Low business risks. We assess business risk taking into account factors such as cyclicity, operating leverage, financial leverage, competitive strength, regulatory and political environment and profitability. We carefully assess business risk to determine the certainty of cash flow and earnings projections which are central to making an assessment of intrinsic value.
- Low agency risks. Agency risk refers to the risk surrounding the deployment of the free cash flow generated by a business.

We anticipate that Magellan Global Fund will comprise 20-40 individual investments, with the portfolio weighted towards our highest conviction investment ideas.

Contact Us

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Portfolio Manager
Hamish Douglass

Structure
Global equity fund, \$A unhedged

Minimum Investment
\$20,000 (\$10,000 with regular investment plan)

Contribution Fee*
Maximum of 1.25%

Buy/Sell Spread*
0.25%/0.25%

Management Fee*
1.26%p.a.

Administration Fee*
0.10%p.a.

Performance Fee*
10.10% of excess return over an index hurdle (MSCI World Index Net Total Return (\$A)) subject to the Fund's net performance also being greater than the Australian Government 10-year bond yield. Additionally, the Performance Fees are subject to a high water mark. Any Performance Fee will be reduced to the extent that it causes the total return to fall below any of the above measures.

*All fees are inclusive of the net effect of GST

Top Ten Holdings as at 31 March 2009

Company	% of Portfolio
Google Inc	6.8%
eBay Inc	6.7%
McDonalds Corp	5.6%
Yum! Brands Inc	5.4%
Procter & Gamble	5.4%
Coca Cola Inc	5.3%
Nestle SA	5.3%
American Express Company	5.0%
Wal-Mart Stores Inc	5.0%
Groupe Danone	4.0%
Total Top Ten	54.5%
Cash	24%

Market Commentary

The March quarter stockmarkets continued to trend into negative territory with the index dropping by about 11%, although we did see a rally later in March and into early April. We believe that the global credit crisis is yet to fully play out and we remain cautious on suggesting that all the uncertainty is over. The G20 meeting in London in late March suggested that governments were committed to ensuring that the world's financial systems remain strong and robust and resources would be made available to support systemically significant financial institutions from failing.

The world's major sharemarkets now remain firmly focussed on assessing economic data – particularly world trade and industrial production, as unemployment continues to trend higher.

We have previously commented on the deleveraging of the consumer and the likely impact on the developed world's growth. We continue to believe that the "debt-fuelled consumption bubble" (more than any other bubble that economic commentators might refer to) will have an ongoing negative impact on the developed economies' GDP for some time. We believe that many of the governments' stimulus packages will now need time to take effect. Whilst traditional monetary policy is now all but ineffective, some major central banks have reverted to unconventional policy, like quantitative easings, in an effort to stimulate their respective economies, reduce long-term interest rates and provide capital to reduce budget deficits. Many governments have little room to materially further expand fiscal stimulus activities, with numerous countries having had their credit ratings downgraded or put on watch (including Spain, Portugal, Ireland, Greece, Ireland, and parts of Eastern Europe).

The Global Financial Crisis has effectively shut down the world's major funding markets, with banks dramatically curtailing lending as they fight to survive. At the same time, the shadow banking system is effectively closed. The stabilisation of the financial system is critical for an economic recovery.

Major governments are undertaking significant policy initiatives to help stabilise the world's banking system, including guaranteeing deposits and bank debts, capital injections and the purchase or guarantee of toxic assets. We believe that the recent bounce-back in sharemarkets is based on the hope these initiatives are starting to stabilise the financial system.

Portfolio Commentary

As at March 2009, the Global Fund portfolio consisted of 24 investments (up from 21 in the December 2008 quarter), whilst we continue to hold a relatively high level of cash of approximately 24%. Important investments during the quarter include significant purchases of Coca Cola Inc, American Express, eBay, McDonald's and Procter & Gamble.

We continue to remain significantly underweight in financial stocks, with the top 10 holdings representing over 54% of the fund.

Key Stock in Focus

McDonald's Corporation

McDonald's Corporation franchises and operates McDonald's quick service restaurants around the world. The McDonald's chain spans 118 countries over 31,500 restaurants. Restaurants are operated either by McDonald's (~6,700, or 21% of them at present), by independent entrepreneurs under the terms of conventional franchise arrangements (franchisees), or by affiliates and developmental licensees operating under license agreements.

McDonald's primarily views itself as a franchisor. Even so, the more capital intensive business of company owned restaurants is an integral part of this, as it ensures its credibility as a franchisor, provides restaurant experienced Company personnel, assists in sustaining innovation and can facilitate strategic changes to restaurant ownership.

The business is managed in distinct geographic regions. The U.S. and Europe segments account for almost 35% and 45% of total revenues respectively, while the Asia Pacific, Middle East, and Africa segment chips in another 18%. McDonald's in Latin America and Canada account for the balance.

McDonald's has a tremendous economic moat. Contributors to this include its significant relative scale advantage over any other player in the segment, its real estate ownership and its worldwide brand recognition. To elaborate:

In 2008, the company, its franchisees, and affiliates generated roughly \$70.6 billion of systemwide sales globally, from ~\$52b just 3 years ago. This compares to about \$37B, \$15B and \$12B for rivals Yum Brands (mainly from its 3 big brands - KFC, Pizza Hut and Taco Bell), Burger King and Wendy's/Arby's. This ensures McDonald's a lot of power over its suppliers, many of which are dependent on McDonald's. Its size also provides incredible advertising muscle. The economics of its scale means McDonald's can sell its food products at prices that often make it cheaper for people to eat McDonald's than to buy and prepare food from the supermarket. Clearly its value proposition is powerful, particularly in these economic times, and its customer traffic trends remain strong.

The McDonald's brand speaks for itself, especially in one of its most innovative and stronghold markets like Australia. It consistently rates as a top 10 global brand in major Brand Value surveys such as Interbrand. Importantly, we believe the shift in strategic focus since 2003 has served to strengthen the brand and rebuild its consumer perception. Some of the important facets to the brand include its substantially uniform menu, the value proposition we mentioned above, its speed of service, the high level of consistency to its products and its ubiquitous presence. The dramatic lift in choice (depth of menu range) is further enhancing the brand while being a key driver of its market share gains and above average growth in sales.

McDonald's cash flow generation is very strong and its reinvestment requirements are modest. In the near term, we expect McDonald's operating performance to continue to outstrip its peers by a comfortable margin.

Performance Summary as at March 31 2009

	3 Months	6 Months	1 Year	S.I % p.a†
Magellan Global Fund	(7.23%)	(13.59%)	(4.97%)	(7.85%)
Excess return relative to benchmark*	4.39%	8.19%	19.59%	14.88%

*MSCI World Index Total Return (\$A)

†Since Inception. Date of Inception: 1 July 2007

Calculations are based on exit price to exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable).