

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

Portfolio Manager

Hamish Douglass

Structure

Global equity fund, \$A unhedged

Minimum Investment

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

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 the higher of the Index Relative hurdle and the Absolute Return Hurdle 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 December 2009

Company	% of Portfolio
eBay	7.93%
McDonald's	6.69%
Yum! Brands	6.65%
Procter & Gamble	6.52%
Wells Fargo	6.05%
Nestlé	5.52%
US Bancorp	5.16%
Kraft	4.85%
American Express	4.71%
Macquarie Infrastructure Group	4.60%
Total Top Ten	58.68%
Cash	4.01%

Market Commentary

There continues to be considerable debate on the shape of the economic recovery in the major economies around the world. In our view, the factual situation is different in many economies and it is difficult to generalise of how a "global recovery" is likely to unfold. We continue to believe that the economic background surrounding the current situation in many developed economies is very different to past recessions (particularly the level of household debt) and hence the duration of the ultimate recovery is likely to be longer than in the past.

A recent paper by The McKinsey Global Institute titled *Debt and Deleveraging: The global credit bubble and its economic consequences* (January 2010) concluded:

"We find that leverage remains very high in at least ten sectors of five major economies – Canada, Spain, South Korea, the United States, and the United Kingdom. While we cannot say for certain whether these sectors will deleverage, we do know that nearly every significant financial crisis in the post-World War II period was followed by a lengthy and painful period of deleveraging. These episodes lasted on average six to seven years, with total debt as a percentage of GDP declining by roughly 25%. GDP contracted in the initial years of deleveraging but rebounded in the later years. If history is a guide, therefore, we would expect a significant period of deleveraging to come, which will dampen GDP growth."

The McKinsey paper also concluded that the deleveraging process may start later and take longer than historical situations would suggest. They comment:

"Most of the past episodes involved one economy or a few relatively small economies following a national or regional crisis. Today, however, the crisis is global in scale, affecting the world's biggest economies, many of which are still in recession or experiencing very tepid growth. It is difficult to see how all the affected economies could simultaneously deleverage by boosting net exports, as many have done in the past."

"Moreover, rising government debt may delay the start of deleveraging. Government debt is projected to increase sharply in Spain, the United Kingdom, and the United States. This could more than offset any deleveraging by the private sector, and thus delay the point at which an entire economy's debt to GDP declines."



Market Commentary (continued)

In our view, over the next 12 months the United States, and a number of other major developed economies, are likely to report accelerating economic growth which will lead many to the conclusion that the United States and other companies are experiencing a typical "V" shaped economic recovery and that the "deleveraging story" is a myth in economists' imaginations. We remain very cautious around the sustainability of a strong recovery in the United States as the recovery is likely to be largely supported by the continued massive fiscal and monetary stimulus being injected into the economy.

We regularly review the state of the US Federal Reserve's Balance sheet to ascertain the extent of quantitative easing and whether the resultant increase in the money supply has found its way into the economy. Of particular interest is the size of the Federal Reserve's Balance Sheet which has grown from around US\$940 billion in August 2008 to around US\$2.275 trillion in January 2010. Also, reserves balances (or deposits) held with the Federal Reserve from US banks have increased from US\$11 billion to US\$994 billion over the same period. The increase in the size of the Federal Reserve's balance sheet largely reflects the purchase of US treasuries and mortgage backed securities under the quantitative easing program. It is particularly noteworthy that the increase in the money supply from the quantitative easing program has largely been put on deposit with the Federal Reserve. As the economy starts to pick up it is likely that banks will start to withdraw these reserve balances and inject the money into the economy via the extension of credit. It is interesting that over the last month the reserve balances actually fell by around US\$130 billion, which is the first time they have fallen since the Federal Reserve commenced its quantitative easing program. In our view the most probable outcome is that the US economy will accelerate in the short term as this money finds its way into the economy. In fact, given the quantum of the reserve balances it is possible that the US economy could actually accelerate faster than current near-term economic forecasts predict.

It is highly likely if the US economy starts to pick up, this stimulus will need to be withdrawn. In our view when the Federal Reserve commences its "exit strategy" both short-term and long-term interest rates will be pushed up, which will act to slow an economic recovery. We continue to believe that it is likely (although not certain) that highly leveraged economies (like the US and the UK) which have been severely impacted by the financial crisis will deleverage, resulting in subdued economic growth for an extended period of time. We hold this view notwithstanding the likelihood that economic growth will accelerate over the next 12 months.

Although we remain cautious about the economic outlook we remain of the view that it is an excellent time to be investing in a portfolio of carefully selected companies. We believe that the Global Fund portfolio is well placed to prosper if deleveraging takes hold in a number of major economies and will do somewhat better if it does not occur.

Portfolio Commentary

As at December 2009, the Magellan Global fund consisted of 23 companies (down slightly from the 24 at the end of the previous quarter), whilst the cash level has dropped from 8% to 4%.

Significant changes in the composition of the portfolio from last quarter include the inclusion in the Top 10 of two outstanding financial institutions in US Bancorp and Wells Fargo - both companies representing greater than 5% portfolio weightings. Kraft Foods and Macquarie Infrastructure Group are now also in the fund's Top 10, whilst the weightings of Google, Wal-Mart, Unilever and Coca-Cola have now fallen below the Top 10.

eBay is now the fund's largest holding at 7.93% of the portfolio, whilst the fund's Top 10 companies represent a total of around 58% of the total portfolio.

Key Stock in Focus

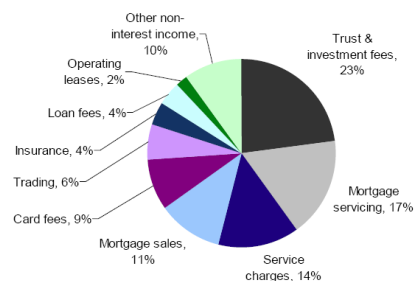
Wells Fargo

Wells Fargo is the leading bank distribution network in the United States serving one in three US households through more than 6,650 branches across 39 states and 12,350 ATMs. The bank also has America's second largest deposit base, with around \$800 billion in deposits. Wells Fargo was founded in 1852 in San Francisco to support businesses in the California gold rush. Wells Fargo has undergone two large transformations in recent history. The merger with Norwest in 1998 deepened and expanded the bank's franchise across the West and Midwestern United States, as well as greatly strengthening Wells Fargo's consumer-oriented sales culture. The recent acquisition of Wachovia brings Wells Fargo a very strong retail bank franchise in East and South Eastern United States as well as a national capital markets and wealth management businesses.

One of the significant attractions of Wells Fargo is the diversity of its revenue streams, with over 80+ businesses within the banking and financial services spectrum. Further, Wells Fargo has leading market shares in higher-growth states and leading product positions. It has the #1 deposit market share in 44% of the 39 states in which it operates and a top 3 deposit share in 93% of those 39 states. It is also a leader in a number of areas including: the largest number of mortgage stores (2,200) in America; the largest mortgage producer; the leading lender to small business; and the largest bank-owned insurance broker. Wells Fargo is the number 2 bank in the following businesses; deposits; issuer of debit cards; full-service brokerage; and family wealth provision.

The leading franchise positions of many of its businesses provide Wells Fargo with its economic moat. In particular, Wells Fargo's success in cross-selling products to both its retail and corporate customers help to enmesh customers within its well-regarded product offering, providing a steady stream of recurring revenues. For example, Wells Fargo's retail household customers own 6 products, on average, compared to an average of 2 products for most financial institutions. Wells Fargo's very strong deposit franchise also provides it with access to low cost funding, which help support its margins and provide resilience in adverse funding markets.

Wells Fargo - Diversified Fee Generation
(9 mths to 30 Sep. 2009)



The financial strength of Wells Fargo has been reinforced by capital raisings of \$33bn since November 2008 and the full redemption of preferred shares ("TARP") mandatorily issued to the US Treasury. Risks from credit losses remain, with losses anticipated to continue to increase as the recession and high levels of unemployment result in higher loan defaults. However, the stability of Wells Fargo's diverse revenue streams is expected to cover likely losses as well as contribute to capital strength.

Historically, Wells Fargo has achieved 15% compound annual growth in pre-tax pre-provision earnings in the 10 years to 2008, along with consistent 15% dividend growth since 1989 until 2008. Wells Fargo's 5 year average return on equity has been 18%, compared to the peer average of 13%. Management expects the Wachovia acquisition to provide a return on invested capital of greater than 20%.

Wells Fargo is the leading retail and small business oriented bank in the United States. It has superior positions in higher growth states. The diversity and security of its revenue streams, together with the integration of Wachovia and normalization of credit losses, will continue to provide GDP+ earnings growth.

Performance Summary as at 31 December 2009

	3 Months	6 Months	1 Year	2 Years (% p.a.)	S.I % p.a.†
Magellan Global Fund	5.73%	12.34%	6.57%	1.86%	(0.17%)
Excess return*	3.60%	2.47%	5.80%	15.11%	11.84%

* Over Index Relative Hurdle

† 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).