# Magellan Global Fund

## Fund Update: 30 June 2012

### Fund Overview

**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 cyclicality, 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

**Inception Date**
1 July 2007

**Total Global Equity AUM**
$AUD2,264.2million

**Fund Size**
$AUD1,286.1million

**Management Fee***
1.25%p.a.

**Administration Fee***
0.10%p.a.

**Performance Fee***
10.0% of excess return over the higher of the Index Relative hurdle and the Absolute Return Hurdle (Australian Government 10-year bond yield). Additionally, the Performance Fees are subject to a high water mark.

*All fees are inclusive of the net effect of GST

### Top 10 Holdings

| | GICS Sector | % age |
|---|---|---|
| eBay Inc | Information Technology | 6.86% |
| Novartis | Health Care | 6.09% |
| Lowe's | Consumer Discretionary | 5.99% |
| Google Inc | Information Technology | 5.91% |
| Danone | Consumer Staples | 4.83% |
| Wal-Mart Stores Inc. | Consumer Staples | 4.59% |
| Wells Fargo | Financials | 4.57% |
| Tesco Plc | Consumer Staples | 4.52% |
| Visa Inc | Information Technology | 4.46% |
| American Express | Financials | 4.26% |
| **Total** | | **52.08%** |

### Market review for the quarter

The June quarter saw a continuation of volatility in global markets, the major driver being ongoing concerns regarding the European Debt crisis. The failure of the first round of Greek elections fuelled speculation on whether or not Greece would leave the Eurozone, resulting in higher credit default swap costs for certain European sovereign debt, soaring sovereign bond yields and a shift of focus onto the undercapitalised European banking system.

Subsequently, the meeting of EU leaders on the 28th of June resulted in a number of measures aimed at breaking the negative feedback loop between individual country's banks and sovereign debt, the issue of subordination of private sector debt to bailout funds provided by the EU and the first step towards an EU banking union. Importantly, the EU leaders announced that they have agreed to refinance Spanish banks with an injection of up to €100 billion to be lent directly by the European Stability Mechanism (ESM) rather than via a loan to the Spanish government, which would increase Spanish government debt. This should assist in breaking the negative feedback loop between the level of sovereign debt and the solvency of the banking system. The immediate market reaction was not surprising, equities and commodities rallied, German bunds and US Treasuries fell and the US dollar fell.

### Fund performance and Activity for the quarter

As at 30 June 2012, the Fund consisted of 24 investments, with the top ten holdings representing 52% of the Fund. During the quarter, the Fund returned 0.2% net of fees against the benchmark return of -4.1%, resulting in outperformance of 4.2%. Since its inception in July 2007, the Fund has returned 4.1% p.a. net of fees against the benchmark return of -6.6% p.a., resulting in outperformance of 10.7% p.a.

Over the quarter, the three stocks with the strongest returns in local currency were Wal-mart (14.7%), eBay (13.9%) and PepsiCo (7.3%) while the stocks with the weakest local currency returns were Google (-9.5%), Yum! Brands (-9.1%) and McDonald's (-9.1%).

The Fund remains fully invested, reflective of Magellan's comfort with the current macroeconomic environment and subsequent view that it remains an attractive time to be investing in extremely high quality multinational companies that are typically unavailable to the Australian investor.





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## Outlook and Strategy

We continue to consider the risk of a systemic financial system meltdown as a result of the current European sovereign debt crisis is low despite the recent market volatility. We remain focused on prudent portfolio construction with emphasis on the aggregation of risk within the Fund. We feel comfortable with the overall risk profile and construction of the portfolio and believe it is likely to exhibit substantially less downside risk than the market in the event that the situation in Europe deteriorates materially.

## Net Performance

| | Fund | Index*** | Excess Return |
|---|---|---|---|
| 1 Month | -1.94% | -0.55% | -1.39% |
| 3 Months | 0.18% | -4.06% | 4.24% |
| 6 Months | 9.30% | 5.93% | 3.37% |
| 1 Year | 18.25% | -0.76% | 19.01% |
| 2 Years (% p.a.) | 10.11% | 1.09% | 9.02% |
| 3 Years (% p.a.) | 11.36% | 2.53% | 8.83% |
| 4 Years (% p.a.) | 10.27% | -2.54% | 12.82% |
| 5 Years (% p.a.) | 4.12% | -6.56% | 10.68% |
| Since Inception (% p.a.) | 4.12% | -6.56% | 10.68% |
| Since Inception | 22.39% | -28.77% | 51.16% |

***MSCI World Net TR Index (AUD)

The Fund continues to be exposed to the following major investment themes:

- Emerging market consumption growth via investments in multinational consumer franchises. The Fund has approximately 32% of the portfolio in multinational consumer franchises which have on average approximately 40% of their sales revenue from emerging markets. The five largest investments in multinational consumer franchises at 30 June were Danone, Nestle, Procter & Gamble, Unilever and McDonald's.

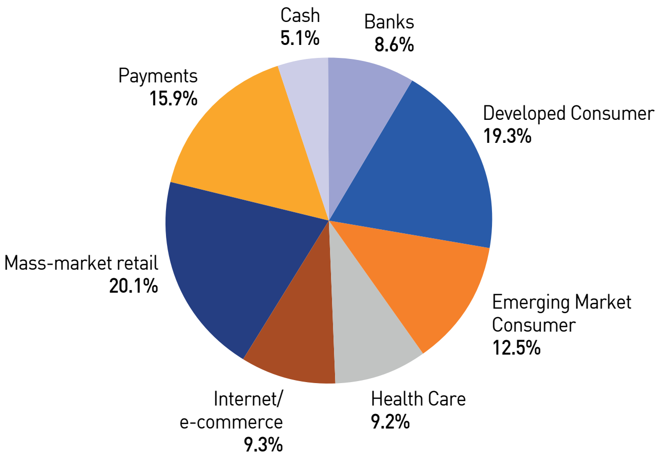
- The move to a cashless society. There continues to be a strong secular shift from spending via cash and cheque to cashless forms of payments such a credit cards, debit cards, electronic funds transfer and mobile payments. In our opinion, the explosion of smart mobile phones will accelerate this shift on a global basis. We believe that there are only a limited number of companies that are well positioned to benefit from this structural shift. The companies are typically highly attractive with strong network effects, low capital intensity, high barriers to entry and high returns on capital. As at 30 June 2012, the Fund had approximately 16% of the portfolio invested in the payments through exposure to companies such as PayPal (via eBay), American Express, Visa and MasterCard.

- Internet/e-commerce convergence. There are a number of internet enabled businesses that have very attractive investment characteristics with increasing competitive advantages. The Fund's internet investments at 30 June 2012 were eBay and Google, which represented approximately 10% of the Fund's portfolio.

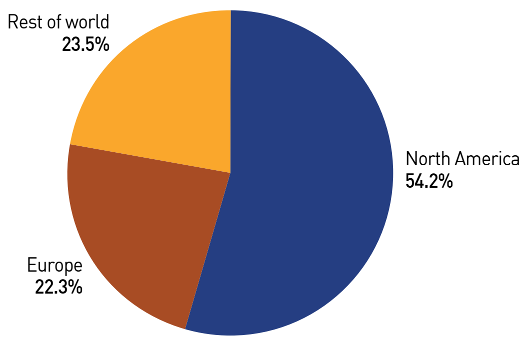
- US housing Recovery. A recovery in new housing construction should drive a strong cyclical recovery in companies exposed to US housing and also provide a strong boost to the overall economy. Our major exposure to the US housing market is via our exposure to the home improvement retailers, Lowe's and Home Depot, and the domestic US banks, Wells Fargo and US Bancorp. These investments represented approximately 16% of the Fund's portfolio at 30 June 2012.

## Performance Chart Growth of $1,000 (net of fees)


## Industry Exposure by Source of Revenues




## Geographical Exposure by Source of Revenues

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