

Magellan Global Fund

Fund Update: 30 September 2012

Key Facts

Portfolio Manager
Hamish Douglass

Structure
Global Equity Fund, \$A
unhedged

Inception date
1 July 2007

Performance Fee¹

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.

¹ All fees are inclusive of the net effect of GST

Performance²

	Fund %	Index % ³	Excess Return %
1 Month	1.7	2.1	-0.4
3 Months	5.6	5.2	0.4
6 Months	5.8	0.9	4.9
1 Year	21.9	13.6	8.3
2 Years (% p.a.)	14.4	4.1	10.3
3 Years (% p.a.)	11.1	1.8	9.3
4 Years (% p.a.)	6.5	-2.1	8.6
5 Years (% p.a.)	5.6	-5.3	10.9
Since Inception (% p.a.)	5.0	-5.4	10.4
Since Inception	29.2	-25.1	54.3

² Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable) Fund Inception 1 July 2007.

³ MSCI World Net Total Return Index (\$A)

Top 10 Holdings

	Sector	% of Fund
Google Inc	Information Technology	6.9
Novartis	Health Care	6.0
Lowe's	Consumer Discretionary	6.0
eBay Inc	Information Technology	5.6
Yum! Brands Inc	Consumer Discretionary	5.2
Tesco Plc	Consumer Staples	5.0
McDonald's Corp	Consumer Discretionary	4.6
Kraft Foods	Consumer Staples	4.3
Danone	Consumer Staples	4.3
Wells Fargo	Financials	4.2

Regional Breakdown

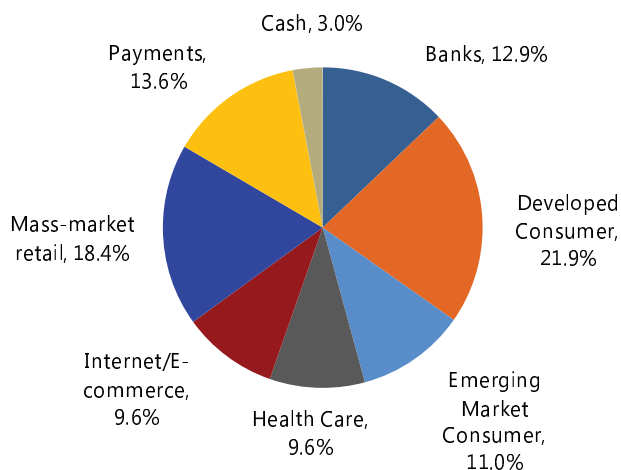
	% of Fund
Multinational ⁴	53.6
North America	38.4
United Kingdom	5.0
Australia	0.0
Europe	0.0
Japan	0.0
Asia Ex-Japan	0.0
Cash	3.0
TOTAL	100

Performance Chart Growth of AUD \$1,000

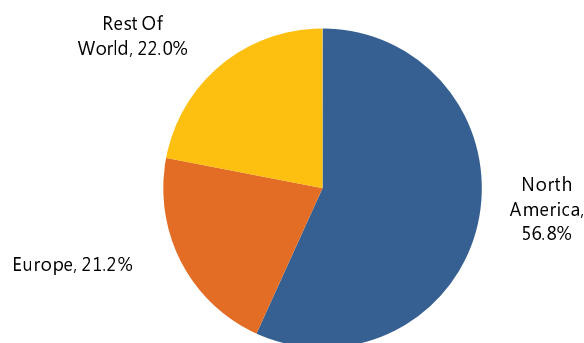
Index³ Magellan Global Fund



Industry Exposure by Source of Revenues⁵



Geographical Exposure by Source of Revenues⁵



⁴Multinational: Greater than 50% of revenues outside home country.

⁵Calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio.

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Important Information: Units in the Magellan Global Fund are issued by Magellan Asset Management Limited (ABN 31 120 593 946, AFS Licence No 304 301). Past performance is not necessarily indicative of future results and no person guarantees the future performance of the Fund, the amount or timing of any return from it, or that it will achieve its investment objective. This material has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Investors should consider obtaining professional investment advice tailored to their specific circumstances prior to making any investment decisions and should read the relevant Product Disclosure Statement (PDS) available at www.magellangroup.com.au or call 02 8114 1888 to obtain a copy of the PDS.



Key Stock in Focus

In August 2011, Kraft Foods Inc. announced that it intended to separate itself into two independent, publicly traded companies: Mondelez International, focused on its global snacking operations, and Kraft Foods Group, focused on its grocery operations in North America.

As an independent entity, Mondelez offers the rare combination in the staples universe of an attractive and sustainable growth profile, with nearly half of its earnings generated in developing markets, and global market leadership across a purposefully focused category presence, skewed to the confectionery and biscuit industries.

Mondelez is the largest global manufacturer of biscuits (think Oreos), chocolate and candy (think Cadbury & Toblerone), and the second largest manufacturer of gum (think Trident). Sales from these categories account for nearly 75% of the annual US\$36b in revenue. The snack and beverage industries in which Mondelez competes are growing and highly profitable. Industry growth is supported by premiumisation and better-for-you / functional trends in developed markets, and rising levels of disposable income and growing demand for affordable luxuries & treats in emerging markets. Per capita consumption levels of its products in emerging markets remain a fraction of those observed across developed markets.

High levels of profitability in the snack and beverage industries reflect an oligopoly structure in local markets that includes very low levels of competition from private label, very high entry barriers due to the scale and distribution advantages achieved by incumbents, the simplicity of the product form, and an outsized exposure to higher-margin convenience and impulse channels.

Because Mondelez operates in attractive industries, and has achieved leadership positions within these industries, the company earns a very high and defensible return on tangible capital.

Mondelez generated 44% of its sales, and a greater share of profits, from developing markets in 2011. Europe accounted for 37% of sales, with the balance from sales in North America. Because of its exposure to faster growth emerging markets and expanding categories in developed markets, Mondelez targets annual double-digit EPS growth on a constant-currency basis.

In our view, Mondelez has a very strong competitive position, highly attractive economics and is priced at a discount to our assessment of intrinsic value.

Market Commentary for the Quarter

The September quarter saw a strengthening in markets globally, the major drivers were significant central bank stimuli and positive economic data from the US. On the 6th of September, the ECB announced its highly anticipated, unlimited Outright Money Transaction program aimed at purchasing sovereign debt with terms of 1-3 years, including longer dated debt with a residual maturity of less than three years, followed a week later by the Federal Reserve announcing its open ended QE III with pledges to purchase at least \$40bn of mortgage backed securities each month and to maintain low interest rates through 2015. This was then subsequently followed a week later by the Bank of Japan increasing its asset purchasing program (limited to T-Bills and JGBs) by Y10 trillion to Y80 trillion. The immediate market reaction was not surprising with buoyant equity and bond markets globally.

However, these unprecedented measures remain untested and are not without risks or unintended consequences. We remain cautious of the effects on inflation and the mispricing of certain assets and risks.

Fund Commentary

As at 30 September 2012, the Fund consisted of 25 investments, with the top ten holdings representing 52% of the portfolio. During the quarter, the Fund returned 5.6% net of fees against the benchmark return of 5.2%, resulting in outperformance of 0.4% in Australian dollar terms. Over the quarter, the three stocks with the strongest returns in local currency were Google (+30%), eBay (+15%) and Home Depot (+14%) while the stocks with the weakest local currency returns that were held for the quarter were Danone (-2%), American Express (-2%) and Johnson & Johnson (+2%). Significant changes to the Fund during the quarter;

- Kraft Foods split into two entities; Kraft Foods Group and Mondelez International. The Fund holds both entities, Kraft Foods Group provides exposure to the more stable US grocery business while Mondelez International provides exposure to the fast growing snack foods businesses with greater emerging market exposure.
- Home Depot and PepsiCo were sold down completely on relative valuation grounds.
- Global financial institutions State Street Corp & Bank of New York Mellon were added to gain exposure to high quality businesses in an industry poised to benefit over the medium to long term from a normalisation of macroeconomics and trading conditions in the US and globally. Their businesses also provide valuable diversification benefits to the Fund as they exhibit different "factor risk" characteristics to the Fund's other financial exposures.
- General Mills was added to the Fund on attractive relative valuation grounds.

Outlook

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 Fund and believe it is likely to exhibit substantially less downside risk than the market in the event that global markets deteriorate materially.

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

- Emerging market consumption growth via investments in multinational consumer franchises.
- 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 as credit cards, debit cards, electronic funds transfer and mobile payments.
- Internet/e-commerce convergence. There are a number of internet enabled businesses that have very attractive investment characteristics with increasing competitive advantages.
- 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.

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