Fund Update: 31 December 2015

Magellan High Conviction Fund

ARSN: 164 285 947

Fund Facts

Portfolio Manager	Hamish Douglass
Structure	Global Equity Fund
Inception Date	1 July 2013
Management & Administration Fee[1]	1.50%
Buy/Sell Spread[1]	0.10%/0.10%
Fund Size	AUD $277.6 million
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the Absolute Return performance hurdle (10% per annum). Additionally, the Performance Fees are subject to a high water mark.

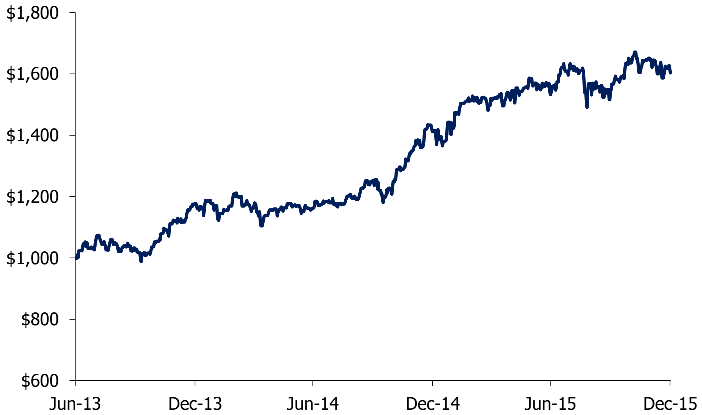
[1]All fees are exclusive of the net effect of GST

Fund Features

- Unconstrained, long-only, highly concentrated
- High quality global equity strategy
- High individual stock exposure – 8 to 12 stocks
- Ability to actively hedge currency exposures*
- Maximum cash position of 50%
- $100,000 minimum initial investment.

*Currently 55% hedged to AUD[2]

Performance Chart growth of AUD $1,000[3]



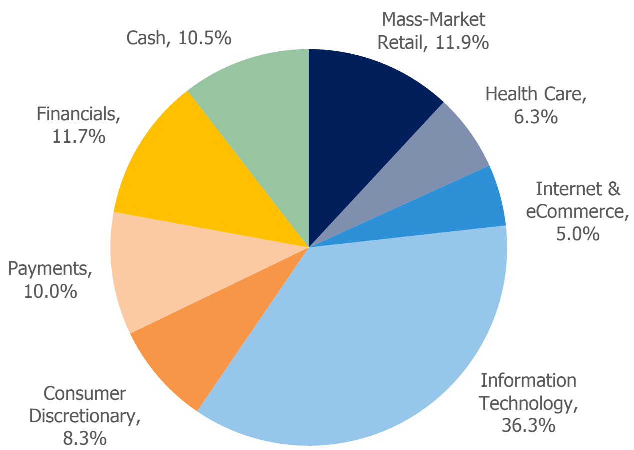
Fund Performance[2]

	Magellan High Conviction Fund (%)	Magellan Global Fund (%)
1 Month	-2.5	-2.0
3 Months	3.8	0.6
6 Months	4.6	5.2
1 Year	13.6	15.3
2 Years (% p.a.)	16.7	14.9
Since Inception (% p.a.)	20.8	

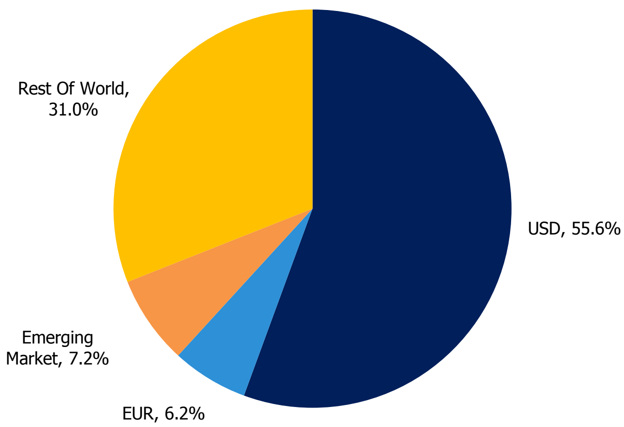
Top 5 Holdings

In alphabetical order	GICS Sectors
Apple Inc	Information Technology
Intel Corp	Information Technology
Lowe's Co Inc	Consumer Discretionary
Microsoft Corp	Information Technology
Visa Inc	Information Technology

Industry Exposure by Source of Revenues[4]



Geographical Exposure by Source of Revenues[4]



[2]The Fund is currently exercising its ability to hedge some of the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian dollars.

[3]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 2013. Returns denoted in AUD.

[4]Calculated on a look through basis based on underlying estimated revenue exposure of individual companies held within the portfolio - Magellan defined sectors.

Market Commentary

Volatile conditions persisted in global equity markets through the December quarter, reflecting a confluence of economic drivers. The growing dichotomy between the US and other G7 countries was particularly evident during the period, with investors showing support for US equities ahead of the major European, Chinese and other emerging markets. After delivering a strong rebound in October, investor sentiment gave way to concerns over global growth prospects to lead most major markets lower in December.

In Europe, equity markets moved higher ahead of the European Central Bank's (ECB) decision in early December to extend its quantitative easing program. The ECB will continue to inject €60 billion each month through to March 2017 – an extra six months than earlier indicated. The program has also been expanded to include purchases of regional and local government debt. The move was foreshadowed by the ECB which boosted European stocks in October and November. Markets were also supported by a generally favourable economic backdrop, with consecutive positive prints of the manufacturing Index and the region's unemployment rate which reached a four-year low.

Growth momentum in the US economy continued to gather pace, evidenced by further strength in retail sales, house prices and the labour market, with net new job creation pushing the unemployment rate down to 5% for November. The strong data supported the equity market and validated the US Federal Reserve's ("Fed") anticipated official interest rate hike announced on 16 December. The third quarter corporate reporting season was buoyant, with around 74% of the S&P500 companies exceeding consensus earnings expectations. However, caution is warranted here given the degree of negative earnings guidance for the already underway Q4 reporting season.

With the Fed's first move now out of the way, considerable uncertainty remains around monetary policy effectiveness in Europe, China and Japan. With a fair degree of divergence in policy settings among the majors, markets are at risk of mispricing the trajectory of bond yields which has a flow-on impact on equity valuations. We retain a cautious stance for this reason and hold approximately 11% in cash to enhance the capital preservation characteristics of the portfolio.

Fund Commentary

As of 31 December 2015, the Fund comprised of investments in 12 companies, consistent with the number held as at 30 September 2015. The top five investments represented 48.5% of the Fund on 31 December 2015, compared with 47.9% of the Fund as at 30 September 2015. The cash position was 10.5% compared with 11.1% at the end of the prior quarter.

The Fund's Technology stocks made a strong contribution to returns over the quarter. Microsoft was the top contributor with the share price benefitting from its latest quarterly earnings result which came in ahead of consensus. The result reflected continued success in execution across key business lines, with particularly strong performance across its Intelligent Cloud business which offset weaker revenues from Personal Computing products. The result contributed to the share price rising to a 15-year high.

Also within the technology space, Intel contributed to performance on the back of its quarterly earnings release, which exceeded the market expectations of performance for computer hardware sales. The release was followed by favourable guidance from the company on earnings for the remainder of the year which further supported the share price.

Other major contributors for the quarter included the Fund's positions in Visa and Lowe's. Visa was buoyed during the quarter by strong payments and processed transactions volumes while Lowe's was supported by continued momentum within the US housing market. Partially detracting from returns was the portfolio's position in Apple. The stock has experienced negative sentiment relating to its future earnings growth and questions on the sustainability of its market leadership. This may prove to be overly pessimistic when considering the company's market penetration and engaged customer base.