

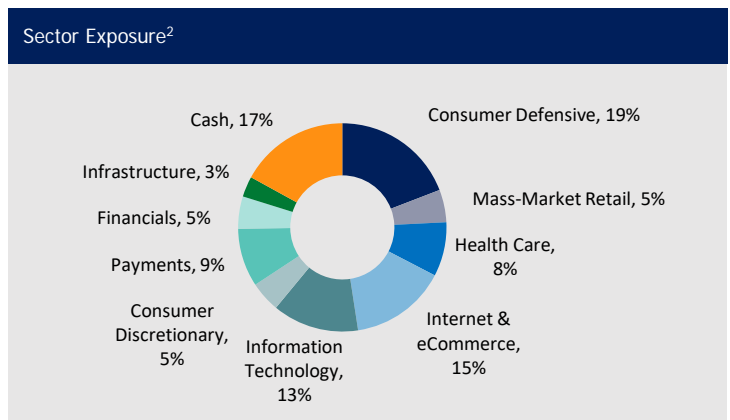
MFG Global Plus (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets ¹
Hamish Douglass	1 July 2013	USD \$5,732.7 million	USD \$37,293.4 million

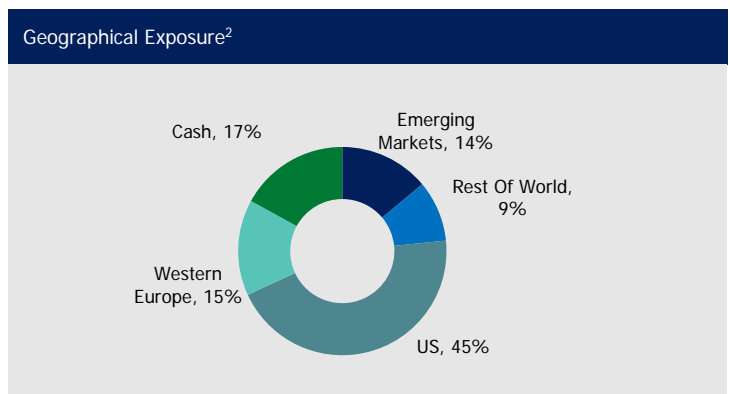
Objective	Approach
Capital preservation in adverse markets	High conviction (20-40 securities), high quality focus
Pre-fee return of 10%p.a. through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8^

Strategy Fundamentals ²	Strategy	Index
Number of Holdings	25	1,647
Return on Equity	26	16
P/E Ratio (1 year forward)	18.0	15.4
Interest Cover	11	11
Debt/Equity Ratio	53	51
Active Share	80	n/a
Weighted Average Market Cap (USD million)	217,503	n/a

Top 10 Holdings ²	Sector	%
Alphabet Inc	Internet & eCommerce	6.6
Facebook Inc-A	Internet & eCommerce	5.6
Visa Inc	Payments	5.3
Starbucks Corp	Consumer Defensive	4.9
Apple Inc	Information Technology	4.8
Lowe's Co Inc	Consumer Discretionary	4.7
Wells Fargo & Co	Financials	4.4
Kraft Heinz Co	Consumer Defensive	4.0
HCA Holdings Inc	Health Care	3.9
MasterCard Inc	Payments	3.8
TOTAL:		48.0



Capital Preservation Measures ⁴	3 Years	Since Inception
Adverse Markets		
No of observations	9	12
Outperformance consistency	100.0%	100.0%
Average return – Strategy	-2.2%	-1.2%
Average return – Benchmark	-4.2%	-3.5%
Down Market Capture	0.5	0.3
Drawdown		
Maximum Drawdown - Strategy	-7.3%	-7.3%
Maximum Drawdown - Index	-12.0%	-12.0%



Cumulative Performance ³	3 Months (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	-1.0	15.4	13.3	9.7	10.8
Composite (Net)	-1.2	14.5	12.4	8.8	9.9
MSCI World NTR Index	-1.3	13.6	14.2	8.0	10.1
Excess (Gross)	0.3	1.8	-0.9	1.7	0.7
MSCI World Qual. Mix NTR	-1.1	13.1	12.6	8.7	10.6
MSCI Min. Vol. NTR	-1.2	9.7	8.4	8.0	10.0

Annual Performance ³	CYTD (%)	2017	2016	2015	2014	2013 [#]
Composite (Gross)	-1.0	25.6	4.3	3.9	6.6	13.4
Composite (Net)	-1.2	24.6	3.4	3.0	5.8	12.9
MSCI World NTR Index	-1.3	22.4	7.5	-0.9	4.9	16.8
Excess (Gross)	0.3	3.2	-3.2	4.8	1.7	-3.4
MSCI World Qual. Mix NTR	-1.1	21.5	7.9	1.6	7.3	14.3
MSCI Min. Vol. NTR	-1.2	17.3	7.5	5.2	11.4	7.9

Supplementary Statistical Measures ⁵	3 Years	Since Inception
Beta	0.9	0.9
Tracking Error (% p.a.)	3.8%	3.9%
Standard Deviation – Strategy	9.6%	9.6%
Information Ratio	0.5	0.2

1 Comprised of all Global Strategies.

2 The data is based on a representative portfolio for the strategy. The representative portfolio changed in July 2017 due to the closure of the former representative portfolio. Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. The Index is the MSCI World NTR Index. Refer to the Important Notice below for further information.

3 Returns are for the Global Plus Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Refer to the GIPS Disclosure section below for further information. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.

4 Risk measures are calculated before fees and in USD. An adverse market is defined as a negative quarter, rolled monthly, for the MSCI World Net TR USD Index, whilst drawdown measures are measured monthly.

5 Supplementary Statistical Measures Beta, Tracking Error and Information Ratio are calculated in USD using the MSCI World NTR Index.

^ Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index. Please contact MFGAM should you wish for further details on the calculation.

* Returns are only for part year.

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The MSCI World Index (Net) is a free-float adjusted market capitalization weighted index that is designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management.

The Global Plus composite is a concentrated global equity strategy investing in high quality companies (typically 20-40 stocks). High quality companies are those companies 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. The investment objectives of the Global Plus strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss. The minimum market capitalisation for a stock to be included is US\$25 billion. The composite was created in July 2013.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing client.reporting@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

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Market Commentary

Global stocks fell for the first quarter in eight in the March quarter after US President Donald Trump imposed import restrictions that could lead to trade wars (especially with China), concerns mounted that US inflation might accelerate enough to prompt the Federal Reserve to tighten monetary policy more quickly than expected, worries gripped that regulators would crack down on US technology companies, and populist parties dominated in Italy's election. During the quarter, nine of the 11 sectors in the MSCI World Index fell in US-dollar terms. Telecoms (-5.9%) and energy (-5.4%) fell most while information technology fared best (+3.4%).

US stocks slid as concerns mounted about trade wars, the stability of the Trump administration, inflation and tech regulation. The White House imposed tariffs on steel (25%) and aluminium (10%), prompting Trump's top economic adviser Gary Cohn to resign, and targeted China with at least US\$50 billion worth of tariffs. After a report showed accelerating wages growth, investors fretted that fiscal stimulus in the form of corporate tax cuts and extra spending would prompt the Fed to raise the cash rate more than three times in 2018. In March, the Fed raised the US cash rate by 25 basis points to between 1.5% and 1.75%, its highest range since the global financial crisis began, but still flagged only another two rate increases this year. The clouds over tech stocks included concerns about data privacy, and moves by the EU to tax their revenues. Over the quarter, economic reports showed consumer prices rose a higher-than-expected 2.2% in the 12 months to February, the jobless rate stayed at a 17-year low of 4.1% for a fifth consecutive month in February and the US economy expanded a revised 2.9% in the fourth quarter. The S&P 500 Index fell 1.2%.

European stocks fell amid political uncertainty even though economic readings were positive. Investors were concerned about the shape and direction of Italy's next government after eurosceptic and anti-establishment parties won 55% of the popular vote in elections that left the debt-heavy country with a hung parliament. Reports out over the quarter showed the eurozone economy expanded 0.6% in the fourth quarter, consumer prices rose 1.1% in the 12 months to February and industrial production rose 2.7% in January from a year earlier. The Euro Stoxx 50 Index lost 4.1%.

In Asia, Japanese stocks sagged as a cronyism scandal enveloping Prime Minister Shinzō Abe could see him lose a party leadership election this September. Over the quarter, a report showed Japan's economy, after expanding at an annualised rate of 0.5% in the fourth quarter, had notched eight consecutive quarters of growth, the longest such stretch in 28 years. In China, parliament abolished the term limits on the presidency that were installed in 1982, effectively making Xi Jinping ruler for as long as he wishes. Japan's Nikkei 225 Index slumped 6.6% while China's CSI 300 Index fell 3.3%.

Strategy Commentary

The strategy recorded a negative return for the quarter. Stocks that lagged included the investments in Kraft Heinz, Wells Fargo and Facebook. Kraft Heinz dropped after disappointing sales figures in the fourth quarter showed the plight of the US packaged-food industry and margin improvement was below expectations. Wells Fargo slid after the Federal Reserve took the unusual step of banning the bank from expanding its assets until the lender can show it has resolved its "widespread consumer abuses and compliance breakdowns". Facebook slumped after news broke that the data of about 50 million users was improperly gained by a UK company and used to target voters in the US elections of 2016 triggered investigations in the UK and US that pointed to stiffer regulation of tech companies. (In April, the number of users whose data was improperly gained was boosted to 87 million.)

Stocks that performed best included the investments in Mastercard, HCA Healthcare and eBay. Mastercard gained after the payments company revealed that fourth-quarter earnings beat estimates – adjusted earnings per share surged 33% – due to higher consumer spending, and the company boosted forecasts for 2018. HCA surged after the hospital chain reported a higher-than-expected profit for the fourth quarter on higher revenue and better control of expenses, said it would enjoy a lower effective tax rate of 25%, announced it would pay its first-ever quarterly dividend, and disclosed a US\$10.5 billion investment plan over the next three years. eBay climbed after the auction-site owner boosted revenue forecasts and announced that it would internalise the intermediation of payments processing on its core marketplaces business.

HCA

Hospital Corporation of AmericaSM

HCA Healthcare - The largest US hospital chain is hard to disrupt

Investors have long expected Jeff Bezos's Amazon to move to disrupt the notoriously expensive US healthcare industry in the same way the company has upended retail. Bezos exceeded expectations this year when, in his first foray into healthcare in what is an attempt to reduce Amazon's medical costs, he teamed with investment legend Warren Buffett and the biggest bank in the US.

On January 30, Amazon, Buffett's Berkshire Hathaway and JPMorgan Chase announced they would set up a venture to provide their combined one million workers with "simplified, high-quality and transparent healthcare at reasonable cost".¹

Even though these companies employ relatively few people, stocks for health insurers (or payers in the industry jargon) and other health supply-chain intermediaries dived on the news that such a formidable trio intends to curtail the "ballooning costs of healthcare" that "act as a hungry tapeworm on the American economy," in the words of Buffett.² Among the stocks that plunged that day – some by as much as 9%³ – were health insurers such as Anthem and MetLife and pharmacy-benefit companies such as CVS Health and Express Scripts, which negotiate prescription drug programs for commercial health plans.

But many segments of healthcare were immune to the announcement. Hospital operators were one such subset.⁴ Most of the hospital providers rose slightly that day because running a hospital is such a complex labour-intensive business that few people expect an outside company, no matter how armed with nous, technology and financial muscle, to disrupt these businesses.

Hospitals are hard to run because health and medicine are multifaceted and regulatory requirements are strict. Hospitals require much capital to establish and medical costs are difficult to control, especially as technology improves. They need skilled and expensive staff. Surgeons, who aren't hospital employees, are demanding. Yet they must be kept happy so they conduct their operations at the hospitals seeking their business. Listed hospital operators have the added challenge that about 80% of the market is catered for by not-for-profit ventures and about 50% of these lose money.

From an investor's point of view, the pick of the listed US hospital chains is the largest; HCA Healthcare, which provides about 5% of the country's hospital services. HCA earned revenue of US\$43.6 billion in fiscal 2017 from 46,638 beds in 179 hospitals (including six in the UK), 120 free-standing surgery centres and about 250 'urgent-care' (after-hours GP) clinics.

HCA is well placed to benefit from rising demand for healthcare as the ageing of the US population increases the incidence of chronic disease. The company's facilities, which each year cater to 26 million patient episodes, eight million emergency visits and 220,000 baby deliveries, have the biggest or second-biggest market shares in 19 of the 20 states where they are found. About half of HCA's hospitals and two-thirds of its beds are in the fastest-growing parts of the US's fastest-growing states.

HCA's other advantages include that it has built the infrastructure to cater for difficult surgeries by the 37,000 doctors who use its facilities. This enables the company to charge high fees and benefit from higher-margin procedures while positioning itself as the hospital of choice in each locality. The company reinvests a sizeable portion of profits to improve standards and expand – it is adding another 100 or so free-standing emergency and urgent-care clinics over the next 12 months. The company enjoys economies of scale and the three parts of its network circulate patients into the other parts of its network. Being part of a well-managed chain gives HCA's facilities strong bargaining positions when dealing with the commercial payers in the health industry, which allows HCA to enjoy industry-leading profit margins. Over time, HCA's expected revenue and profit growth should reward its investors.

While HCA is a low-risk investment from a disruption point of view, it faces other risks that must be monitored. Some are event driven – hurricanes and floods centred on Florida, Georgia, South Carolina and Texas, states where HCA has about half its hospitals, cost the company about US\$140 million in lost revenue in the third quarter of fiscal 2017. The overarching risk, however, is that much uncertainty surrounds the government regulation and funding of the US health system. President Donald Trump and the Republican Party more broadly are undermining the Affordable Health Care for America Act that was passed by former president Barack Obama in 2009 (and thus dubbed 'Obamacare') by making regulatory changes that don't require passing new laws. HCA's advantageous chain of hospitals and other facilities, and the fact that HCA is not dependent on government funding like its peers and is relatively insulated if Obamacare is repealed, mean the company can withstand such uncertainty better than many other healthcare stocks.

More growth and higher fees

In 1968, not long after the US federal government began universal health coverage for the aged and stepped up aid for the poor, HCA began its existence as Hospital Corporation of America after two doctors and two businessmen founded the company to own and operate the Park View Hospital in Nashville, Tennessee. A year later, the company was listed.

The 1970s and 1980s were decades of rapid growth that culminated in the number of hospitals under HCA's control and ownership peaking at 463 in 1987. Then followed management buyouts in 1988 and 2010 (thus two delistings), a merger in 1990, a partial sale in 2010 (of HCA's rural hospitals), and a relisting in 2011.

From an investor point of view, HCA has a sound strategy for enhancing profits in years to come that is based on boosting revenue while controlling costs. Among key strategic goals, the company aims to achieve industry-leading patient outcomes – HCA's hospitals are highly rated for quality on such measures as infection control and admission rates – and is seeking to expand its reach in existing markets. Other goals include enticing the best doctors who can do complex surgeries and to expand prudently in coming years, including via takeovers. To that end, earlier this year, HCA announced it would spend US\$10.5 billion to expand in existing markets over the next three years.

HCA's revenue growth in terms of volume is underpinned by the ageing of the US population, Obamacare's success in widening insurance coverage across the US, and the nine-year economic expansion underway in the US that means more people can pay for healthcare. On a more micro level, HCA seeks to boost revenue by maximising bed usage while minimising hospital stays for each patient. The company is honing its ability to meet the surgery needs of emergency cases and the demand for outpatient surgery. HCA is focused on reducing patient bad debt and lowering the percentage of uninsured patients who are treated free. HCA's strong balance sheet means the company is in prime position to buy hospitals from distressed peers and turn them around operationally. Any acquisitions will provide another fillip for HCA's growth outlook.

In terms of its existing network, HCA's success in boosting revenue by raising prices comes down to three attributes. First, the high quality of HCA's hospitals allows the company to charge higher fees than the non-profit hospitals it competes against in each region. Another is that HCA's size and location in a region give insurers few options when it comes to suggesting alternative private hospital care. Lastly, HCA performs complex procedures at higher cost and superior margins than competitors.

These attributes and advantages mean that HCA is poised to consolidate its position as the largest listed US hospital provider, no matter what Amazon and other disrupters might get up to in healthcare.

Information on HCA Holdings comes from company reports, Bloomberg and Magellan analysis.

¹ Amazon, Berkshire Hathaway and JPMorgan Chase media statement.

'Amazon, Berkshire Hathaway and JPMorgan Chase & Co to partner on US employee healthcare.' 30 January 2018.

berkshirehathaway.com/news/jan3018.pdf

² Amazon, Berkshire Hathaway and JPMorgan Chase media statement. Op cit.

³ MetLife fell 8.6% on 30 January 2018. About US\$30 billion was wiped off the market cap of the 10 largest health insurance and pharmacy stocks within two hours of the announcement from Amazon, Berkshire Hathaway and JP Morgan Chase. Source: Bloomberg

⁴ On 30 January 2018, the stock prices of biggest hospital providers in the US mostly rose. HCA Healthcare rose 3.9%, Universal Health Services added 1.9%, Tenet Healthcare rose 2.5%, Community Health Systems fell 0.2% and LifePoint Health added 2.7%.