

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)

Contribution Fee*

Maximum of 1.25%

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 an index hurdle (MSCI World Index Net Total Return [\$A]) subject to the Fund's net performance also being greater than 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 30 September 2009

Company	% of Portfolio
McDonald's	6.87%
Nestlé	6.51%
Procter & Gamble	6.38%
American Express	5.77%
Yum! Brands	5.77%
eBay	5.58%
Coca Cola	5.43%
Unilever NV	4.70%
Wal-Mart Stores Inc	4.45%
Google	4.30%
Total Top Ten	55.76%
Cash	8.21%

Market Commentary

World equity markets rallied strongly in the September quarter, continuing the rally that began in March. Consistent with an increase in investors (or speculators) risk appetite, the Australian dollar rallied strongly as well. During the quarter the AUD appreciated 9% against the USD, 12% against the UK pound and 5% against the Euro.

During 2008/9 many investors' resolve was tested. A vicious negative feedback loop was in operation. Debt markets seized up as major financial institutions were threatened or collapsed, and this fear dragged otherwise sound institutions into the vortex. Falling share prices caused fear and panic in markets and translated into collapsing business and consumer confidence, which slashed near-term business prospects and caused further fear and panic in markets. There was real risk of an even broader collapse of the financial system and this added to the fear and panic, manifesting itself in many ways, including negative short-term US Treasury prices. In other words, scared investors were willing to pay money to receive a lower face value in 3-6 months for US Treasuries, rather than 'risk' investing their money in other assets.

Central banks and governments injected unprecedented stimulus and appear to have finally stabilised the markets. Companies are now dealing with the recession, consequences of the financial crisis and with the likely future implications of a deleveraging consumer in many major economies.

Overcapacity is prevalent around the world, for example in retailing and car manufacturing in developed markets, in most manufacturing industries and in labour supply. Whilst some of this is cyclical because of the downturn, much is structural. Some is a by product of globalisation that shifts manufacturing and other activities to less expensive locations.

Economic performance country by country will be differentiated by the extent of ongoing deleveraging and the effectiveness of government and central bank policy, particularly the implementation of exit strategies from the current large scale stimulus programmes.

Market Commentary (continued)

When the immediate benefits of fiscal and monetary stimulus dissipate, surplus capacity will likely continue to diminish investment returns and put pressure on prices for many products and services, unless aggregate consumer demand rebounds strongly. Whilst we expect some positive GDP 'surprises' in 2009 and 2010, this is very different to widespread sustainable multi-year profitable growth. Increased tax burdens to repay Government stimulus and/or higher inflation lie ahead. The real purchasing power of unskilled labour in developed economies has fallen, or at least not grown, in comparison with returns to skilled labour and to capital over the past decade. As access to consumer credit tightens, this trend has obvious implications for aggregate consumption and its mix.

Whilst we believe the worst is behind us, we remain cautious about the global economic outlook and the future effects of the current political reactions to the crisis. Investors and politicians should not 'declare victory' too early as complacency and over confidence carry significant future risks.

The strong and rapid appreciation of the AUD since March has almost equalled the percentage rise in world equity markets over this period. Whilst we consider it is very difficult to predict short term currency movements it is not surprising that the AUD has appreciated with an increase in commodity prices, a rise in expectations for short term Australian interest rates and an increase in investor risk appetite. In the short term the AUD tends to be a very pro-cyclical currency. Over the long term the AUD should reflect the relative economic fundamentals of two economies (and particularly the relative need for each economy to finance its activities from foreign investors). Whilst much is made of the long term weakness of the USD and particularly the US economy's dependence on foreign borrowings, little is made of the fact the Australian economy currently has a worse current account deficit as a percentage of GDP than the United States. The ability of each economy to stabilise or improve their current account deficit will be a major determinant as to whether the AUD is currently undervalued or overvalued relative to USD over the longer term. We believe that an unhedged exposure to foreign currencies counter-intuitively produces less volatile returns for investors in the short term (as has been demonstrated during the recent financial crisis) and therefore is a useful diversification tool for investors.

Portfolio Commentary

As at September 2009, the Global Fund portfolio consisted of 24 companies (down from the 25 that were in the portfolio as at the end of the June 2009 quarter), with cash at around 8% - down from the 12% level last quarter. Changes over the quarter in the composition of the portfolio's Top 10 were Coca Cola and Unilever which were elevated, whilst Danone and PepsiCo moved to outside the Top 10. The largest holding in the portfolio is now McDonald's, representing 6.9% with Yum! Brands moving from number 9 last quarter to the fund's 5th largest exposure. The portfolio's Top 10 holdings represented around 55% as at September 2009.

Key Stock in Focus

Procter & Gamble

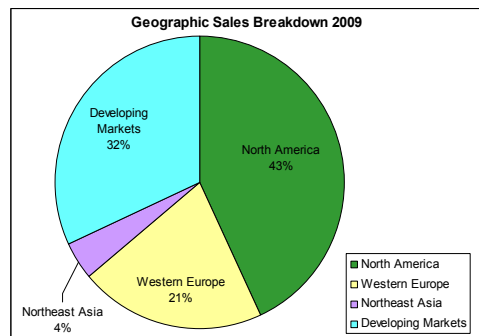
Procter & Gamble (PG) is the world's largest consumer goods company. PG started as a soap and candle business in 1837 in Cincinnati, Ohio and has been a category leader and product innovator ever since. It holds the number 1 and 2 global market share positions in numerous categories, such as blades and razors (Gillette), haircare (Pantene, Head & Shoulders), laundry care (Tide, Gain, Ariel), skin care (Olay), feminine care (Always, Tampax) and diapers (Pampers).

PG also created other firsts with product introductions: Crest was the first toothpaste to include fluoride as a cavity preventing ingredient. Pampers was the first disposable diaper when it was introduced in 1961. Pringles, introduced in 1968, were the first stackable potato chips and were sold in a can instead of a bag, which made them less prone to breaking during transport. The business now includes 23 brands exceeding US\$ 1 billion dollars in sales and a further 20 generating US\$500m in sales. The top 43 brands generate circa 85% of PG's US\$79 billion sales and 90% of its operating profit.

It is the breadth and scale of the PG business combined with geographic diversification which provides its economic moat. The PG product range touches many aisles in the supermarket which is why PG has strong partnerships with many of its key customers.

In FY09 revenues were US\$79 billion, net income was US\$13 billion and the operating margin was 20%. Between 1999 and 2009, the company grew revenues at an 8% CAGR, its net income by 12% CAGR and its EPS by 11%.

Given PG's size, a common misconception is that there is limited growth available to it. In a developed economy such as North America, average consumption per capita for PG products is US\$100 per annum; however, in the developing economies this consumption metric on average is just US\$5 per annum. We expect PG to be a disproportionate beneficiary of the 1 billion or so newly middle class, newly urbanised consumers expected over the coming decades in emerging markets as well as retaining leadership positions in developed markets. PG already has a substantial presence in the emerging markets as shown in the following figure:



PG's long term financial objectives are to grow revenues at 4-6% pa, grow operating earnings at 6-8% pa, grow earnings per share around 10% pa and have free cash flow conversion above 90% of after tax earnings.

PG is an investment in a best-in-class global consumer products company that is a global leader in brand portfolio, innovation capability, scale, management quality and capital management.

Performance Summary as at 30 September 2009

	3 Months	6 Months	1 Year	S.I % p.a.†
Magellan Global Fund	6.25%	8.66%	(6.11%)	(2.63%)
Excess return relative to benchmark	(1.33%)	(2.99%)	6.56%	11.43%

†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).