Investment Management

Walter Scott Global Equity Fund

Macquarie Professional Series

Monthly Report – March 2015

Investment objective

The Fund aims to achieve a long-term total return (before fees and expenses) that exceeds the MSCI World ex Australia Index, in $A unhedged with net dividends reinvested (Benchmark).

Fund performance to 31 March 2015

	Total gross Fund returns	Total net Fund returns*	Benchmark returns**	Net excess returns
1 month (%)	1.38	1.27	0.89	0.38
3 months (%)	9.17	8.84	9.58	-0.74
6 months (%)	17.84	17.11	18.51	-1.40
Fin. YTD (%)	25.53	24.35	25.31	-0.96
1 year (%)	29.14	27.53	29.11	-1.58
3 years (% pa)	22.06	20.53	24.44	-3.91
5 years (% pa)	14.00	12.56	14.31	-1.75
7 years (% pa)	10.59	9.19	7.76	1.43
10 years (% pa)	9.21	7.83	6.47	1.36
Since inception (% pa)* **	9.24	7.86	6.56	1.30

Past performance is no indication of future performance. Total returns are calculated based on changes in net asset values and assumes the reinvestment of distribution

*Total net returns are quoted after the deduction of all fees and expenses. Due to individual investor circumstances, your net returns may differ from the net returns quoted above

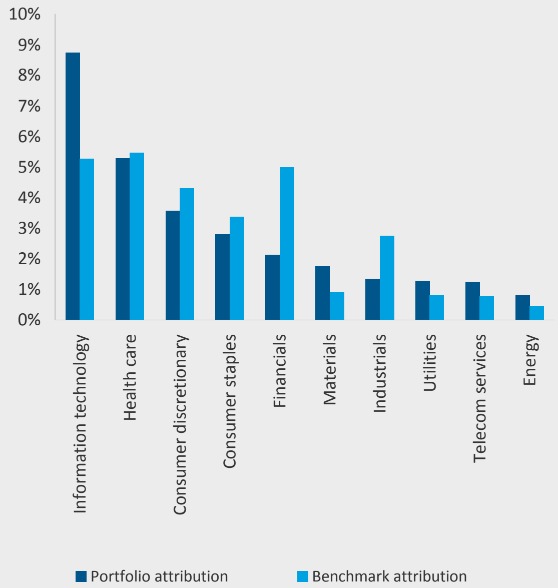
** The benchmark is the MSCI World ex Australia Index, in $A unhedged with net dividends re-invested

*** Inception date is 18/03/2005

Industry weights	Fund (%)	Benchmark (%)
Information technology	23.50	13.73
Health care	17.81	13.54
Consumer discretionary	13.07	13.26
Energy	9.52	7.53
Consumer staples	9.38	9.91
Industrials	8.19	11.07
Financials	6.35	19.68
Materials	5.50	4.84
Utilities	2.95	3.20
Telecom services	2.00	3.24
Cash	1.72	0.00
Total	**100**	**100**

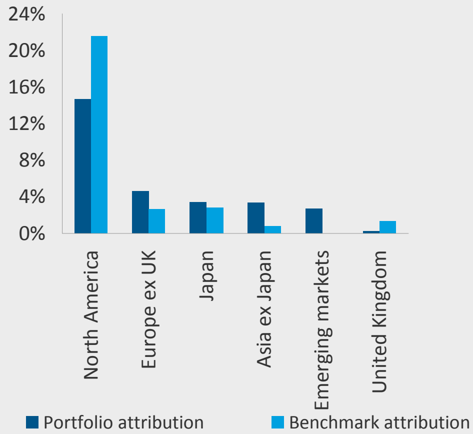
Top 10 stocks	Holding (%)
Mastercard Inc	2.83
Novo-Nordisk As	2.83
Tjx Companies Inc	2.69
Keyence Corp	2.48
Stryker Corp	2.40
Aia Group Ltd	2.37
Fanuc Corp	2.29
Eog Resources Inc	2.24
Amphenol Corp	2.20
Inditex	2.14
Total number of stocks	**54**

Industry attribution - 12 months to date



Country weights	Fund (%)	Benchmark (%)
North America	48.46	62.91
Europe ex UK	19.32	18.10
Japan	10.91	8.87
Asia ex Japan	7.82	2.23
Emerging markets	6.67	0.00
United Kingdom	5.10	7.89
Cash	1.72	0.00
Total	**100**	**100**

Country attribution - 12 months to date



Growth of $10,000

Quarterly Performance review

The Walter Scott Global Equity Fund gained 8.84% (net of fees) during the March quarter underperforming the MSCI World ex Australia Index in AUD unhedged by 0.74%.

Absolute returns were led by the Fund's Europe ex UK and Japanese companies. From a relative viewpoint, US holdings underperformed their index and were the only detractors. Europe ex UK stocks were the only noteworthy contributors.

From a sector perspective, all absolute returns were positive. The most notable performers were financials, healthcare and consumer discretionary companies. In relative terms, the Fund's healthcare companies were the most significant detractors followed by industrials. The financial sector was the only relative contributor of note.

The main stock contributors to performance of the Fund on an absolute basis over the quarter were Novo Nordisk, Fanuc and Keyence. Detracting from performance of the Fund on an absolute basis over the quarter were Precision Castparts, Fastenal and Microsoft Corporation.

Stock Comments

Novo Nordisk's share price reacted positively during the quarter, due to strong fourth-quarter results driven by solid growth and strong cost control boosting margins. In local currencies sales rose 8% in 2014 and operating profit rose 13%. The company later also announced that it would resubmit its insulin drug, Tresiba, to the FDA.

The news that Fanuc is to establish a team dedicated to communicating with shareholders and may consider increasing shareholder returns was well received by the market. The world leader in industrial robotics, which has historically been somewhat reticent in its interactions with shareholders, has noticeably taken a more pro-active stance over the past year.

Keyence reported an impressive set of nine-month results at the start of February. With a 26% year-on-year increase in sales, the company delivered operating profit growth of 35%, mostly driven by the overseas segment. Keyence also benefited from the sentiment around Fanuc's improved attitude towards shareholder engagement, as Japanese corporate governance reforms appear to be gaining momentum.

In January, Precision Castparts added its name to the growing list of companies facing the headwind of weaker demand from the oil and gas industry – at least in the short term. The firm reported organic revenue growth of 2% for its fiscal third quarter, a deceleration from the first half. This deceleration was the result of softening oil and gas markets, destocking by a large aerospace customer, year-end shipment deferrals and longer than expected maintenance at a major forging press. Although never a major driver for the business, oil and gas weakness was apparent in demand from distributors in the last four weeks of the reporting period and there will likely be more pressure in the fourth quarter. The third and fourth of the issues mentioned are entirely transitory and will not recur in the fourth quarter. Management is confident that the inventory destocking at a large aerospace customer is exactly that and does not reflect a loss of market share. Even accounting for customer destocking, sales in the aerospace business grew by 6% over the period.

Fastenal's share price has been negatively impacted by the weaker industrial demand environment in North America. The release of the company's January and February sales figures revealed reduced demand from industrial exporters and industrial suppliers to the oil and gas sector – themselves a result of the strong dollar and the fall in the oil price. Despite these external challenges, the overall sales figures – at 12% and almost 9% growth respectively – were respectable in an absolute sense and the long term opportunity for the business remains. Fastenal is well positioned to grow market share in the fragmented industrial distribution market in good times and in bad.

Microsoft Corporation has performed poorly since November 2014 as market sentiment has cooled on PC-related stocks. One by one, companies and independent research houses have confirmed what Walter Scott already knew: that 2014 PC demand was artificially inflated by Microsoft's Windows XP operating system upgrade cycle. Investors have had to re-familiarise themselves with the idea that PCs are a low or even no-growth market. Despite this reality, Microsoft is maximising value from its PC customers by transitioning them to 'cloud' products whilst simultaneously growing other parts of the business. Second quarter results showed that commercial cloud revenues increased 114% to an annualised run-rate of $5.5bn and consumer Office 365 subscribers increased 163% to 9.2mn. While this transition put pressure on the company's transactional revenues in the short term, it expands the market opportunity and creates a more valuable recurring revenue stream longer term. Microsoft is one of handful of IT companies globally that has the sufficient scale and resources to invest in the infrastructure to support this transition.

Portfolio Activity

HSBC was sold during the period. The investment rationale for HSBC was predicated on continued growth with the bank set to prosper from growing global trade, especially in Asia and greater levels of financial intermediation in the developing world in particular. In more recent times, the team had been assured by management's stated commitment to bring the cost-income ratio down, to nearer 50% and bring the return on equity back up to around 15%. It is now clear that those targets will not be met with the cost-income ratio now trending towards 60% and return on equity flat.

Indivior was spun out of Reckitt Benckiser in December and, with both competition from generics and uncertainty around its pipeline likely to endure until 2017-2018, was subsequently sold.

Shares in the luxury brand Hermes International were received in December, having been spun out by LVMH. Given the small size of the position, the decision was taken to sell that position.

Walter Scott also reduced their position in Nike Inc, and added to the position in BG Group and Gilead Sciences during the quarter.

Outlook

In mid-March, Facebook's valuation topped US$230bn, ranking it the tenth largest company in the S&P 500 by market capitalisation. Apple and Google now take the top two spots with Microsoft Corporation in fifth place. In taking the 10th spot, Facebook ousted blue-blood bank JP Morgan, which fell to 11th. In the same month, Ruth Porat the CFO of another bastion of Wall Street, Morgan Stanley, announced that she would be taking up the CFO role at Google. However, it is not as simple as viewing technology 'in' and banking 'out'. Just as important is the need to understand the underlying dynamics; the blurring of 'old fashioned' sector lines and the quickening pace of disruption. That the Silicon Valley behemoths are expanding into financial services, retail and healthcare is not new. Nor is it correct to think that market leaders in those more 'traditional' sectors are standing still. Disruption will however reveal the true winners and losers over time; therein lies the task of the active investor. In the pursuit of long-term returns, stock selection is paramount.

On separate occasions in March, two members of the team were able to listen to a presentation by Salim Ismail, co-author of Exponential Organizations: Why new organizations are ten times better, faster, and cheaper than yours (and what to do about it) and founding executive director of the Singularity University. His prognosis is that companies can be the disrupter or be disrupted, there is no middle ground. From driverless cars, to robotics, to potentially lifesaving FDA approved healthcare apps and wearables, the need for technological edge and advantage is a constant.

Another member of the team attended a conference organised by the International Finance Corporation, titled Capital Markets East Africa held in Rwanda's capital Kigali. Whilst the stated purpose of the conference was to explore how to build deep, liquid transparent capital markets across east Africa, disruption was also a key theme. Mobile money was introduced to Kenya only seven years ago. M-Pesa, the Kenyan mobile payments business now transfers $2.1bn every month and 60% of Kenya's gross domestic product passes through its float. There was much celebration that credit card fraud in Nigeria is lower than in the US and UK and that the Nigerian central bank is amongst the world's leading banks in this area. That may or may not be true but it does speak to an era where decade-long competitive advantages are under more challenges than ever. The playing field has levelled and past is not prologue.

Fifty percent of the world now owns a mobile phone. There will be 5bn smartphones in the hands of 4bn people by the end of the decade. Bitcoin is a standard remittance in the Philippines; the Ecuadorian government has mandated a digitalised currency. In Kigali there was much talk of the 'appification' of the economy. The flipside to the threat from disruption is of course the opportunity. A member of the research team attended the Singularity University's March Summit in Seville, an event that was supported by the King of Spain, the Spanish state as well as local government. Given the country's current economic and social woes, it seems for Spain, disruption might be the answer. Similarly, for Walter Scott, the task is to identify those companies set to prosper. A task that increasingly demands a process that pays no attention to artificial country and sector classifications, a process that is active and global.

Weights and attribution breakdown for Industry, Stocks and Country is sourced from Macquarie and Factset.

Unit prices	
Application price	$1.9814
Redemption price	$1.9748
NAV price	$1.9776

Distribution history	Cents per unit
Jun-14	0.8138
Jun-13	1.0008
Jun-12	0.7114
Jun-11	0.5544

Fund details	
Total funds under management	$2,554.0m
Inception date	18 March 2005
Investment manager	Walter Scott and Partners Limited; Edinburgh (UK)
Suggested minimum investment timeframe	7 years
Benchmark	MSCI World ex Australia Index, in $A unhedged with net dividends reinvested
No. of stocks	40-60
Management costs	1.28% pa (inclusive of the net effect of GST)
APIR code	MAQ0410AU
Portfolio Turnover	Approximately 15% - 25% pa
Buy/sell spread	+0.19% / -0.14%
Minimum investment	$20,000
Distributions	Annually

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