Morgan Stanley Global Franchise Fund

Macquarie Professional Series®

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Fund Review at 31 March 2008

Fund performance*	1 month %	3 months %	1 year %	2 years (pa) %	3 years (pa) %	Inception (pa) %
Performance before fees	2.5	-10.0	-12.8	-2.4	6.2	7.9
Performance after fees	2.4	-10.3	-14.0	-3.8	4.8	6.4
Benchmark	1.6	-12.4	-14.6	-6.9	3.5	4.2
Excess return after fees	0.8	2.1	0.6	3.1	1.3	2.2

Top ten holdings	%
British American Tobacco PLC	8.9
Imperial Tobacco Group PLC	5.6
Reckitt Benckiser PLC	5.1
Cadbury Schweppes PLC	4.8
Swedish Match AB	4.3
Reed Elsevier NV	4.3
Unilever PLC	4.2
Wolters Kluwer NV	4.2
Kone OYJ	4.1
Philip Morris International Inc	3.9
Total number of stocks	31

Industry weights	Fund %	Benchmark %
Consumer Discretionary	20.1	9.9
Consumer Staples	58.0	9.0
Energy	-	11.3
Financials	1.9	21.4
Healthcare	6.5	9.0
Industrials	6.5	12.0
Information Technology	-	10.8
Materials	1.8	7.1
Telecom Services	-	4.7
Utilities	-	4.9
Cash	5.1	-
Total	100	100

Distribution history	Cents per unit
June 2007	4.11
June 2006	2.89
June 2005	0.31

Country weights	Fund %	Benchmark %
Asia	2.5	11.9
Europe (ex UK)	31.8	24.6
North America	27.4	52.6
United Kingdom	33.2	10.9
Cash	5.1	-
Total	100	100

Fund details	
Total funds under management	$448.4 million
NAV unit price at review date	$1.1668
Inception date	17 November 2004
Investment manager	Morgan Stanley Investment Management Limited, London
Suggested minimum investment timeframe	At least 5-7 years
Benchmark	MSCI World (ex Australia) Accumulation Index in $A
No. of stocks	Generally 20 - 40
Management costs	1.38% p.a. (inclusive of the net effect of GST)
APIR code	MAQ0404AU
Portfolio turnover	Approximately 15% per year
Buy/sell spread	0.45% / 0.25%
Minimum investment	Indirect investors: refer to the operator of your service Direct investors: minimum initial investment $50,000
Distributions	Paid annually as at 30 June

Morgan Stanley

FORWARD thinking

Comment from Morgan Stanley's Global Franchise team

The Global Franchise portfolio returned +2.4% in March, and-10.3% for the quarter, while the benchmark returned +1.6% for the month and -12.4% for the quarter.

As we reported last month, Career Education's near-term results are being affected by the cost of finishing terminated courses for students currently enrolled in those courses. The company's share price has also been affected by market concerns about the availability of student loans after the withdrawal of Sallie Mae of its recourse loan program for students in post-secondary education. We believe that the company will identify alternative sources of funding for its students.

All sectors in the benchmark posted negative returns for the quarter. The three strongest sectors during the quarter were materials (-6%), consumer staples (-7%) and industrials (10%). The three worst performing sectors for the period were telecommunication services (-19%), information technology (-18%) and financials (-14%), all sectors to which we have minimal exposure.

As markets turned down during the quarter, we took the opportunity to initiate a new position in Procter & Gamble. We funded this acquisition mainly from our pharmaceutical holdings, selling out of GlaxoSmithKline completely as well as reducing Pfizer. Whilst these companies certainly remain attractive on the basis of their current-year Free Cash Flow yields, we felt that there was better long-term compounding potential in the companies P&G and BAT. The exception to this was Novartis, where we added to our position, based on our belief that the longterm compounding potential of this company, its diverse business mix and attractive valuation warranted a higher weighting in your portfolio.

Procter and Gamble (P&G) is a company that we have long admired given its portfolio of strong brands - Pampers, Olay, Tide, Gillette and Pringles, amongst others. It has enviable market positions in the developed world and is particularly strong in China and Russia, which show vast potential as a source of future profit growth. Historically, we have been deterred by its rich valuation. However, in March the market provided us with an opportunity to buy P&G at a free cash flow yield of just over 6%, which we viewed as very attractive for such a strong franchise, growing in the double digits. We also sold out of our position in Kimberly-Clark. It was trading at a small discount to P&G, which we believe to be a better quality franchise.

Earlier in the quarter, we added to our existing position in Harley- Davidson; this followed weakness in the share price related to expectations of slower sales in the US. We believe that the franchise and the brand remain strong and the stock offers an attractive FCF yield.

We continue our due diligence work on a number of companies. During the month we met with the managements of Accenture, ASX, Cadbury Schweppes, Campari, Danone, Nestlé, Pearson, Pernod Ricard, Philip Morris International, Philip Morris USA, Stanley Works, Strayer Education, Tingyi and WPP.

How the Fund is managed

The Fund is managed in accordance with the Manager's Global Franchise Strategy, which offers a concentrated portfolio of approximately 20-40 companies that the Manager believes warrant long term investment. Such companies will exhibit key strengths such as:

- possession or control of dominant intangible assets (successful brands, patents, licences, copyrights and distribution networks), which can be difficult for competitors to replicate;
- financial strength and growth potential;
- a reliable and recurring revenue stream;
- high free cash flow generation and
- capable management.

The Fund soft closed on 31 May 2007.

*Past performance is not a reliable indicator of future performance. The returns on the fund assume distributions are reinvested.

How to contact Macquarie

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