Morgan Stanley Global Franchise Fund

Macquarie Professional Series®

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Fund Review at 30 September 2008

Fund total return*	1 month %	3 months %	1 year (pa)%	2 years (pa) %	3 years (pa) %	Inception (pa) %
Performance before fees	1.8	14.9	-6.5	-4.1	3.9	7.1
Performance after fees	1.7	14.5	-7.8	-5.4	2.5	5.7
Benchmark	-3.6	3.6	-16.7	-8.1	-0.4	2.8
Excess return after fees	5.3	10.9	8.9	2.7	2.9	2.9

Top ten holdings	%
British American Tobacco PLC	8.8
Imperial Tobacco Group PLC	6.6
Reckitt Benckiser PLC	4.7
Philip Morris International Inc	4.5
Unilever PLC	4.4
Swedish Match AB	4.4
Reed Elsevier NV	3.8
Wolters Kluwer NV	3.8
Cadbury PLC	3.7
Experian Plc	3.3
Total number of stocks	29

Industry weights	Fund %	Benchmark %
Consumer Discretionary	19.0	9.2
Consumer Staples	63.1	10.8
Energy	-	11.2
Financials	2.2	21.3
Healthcare	2.7	11.1
Industrials	5.7	10.7
Information Technology	-	10.7
Materials	1.6	5.4
Telecom Services	-	4.6
Utilities	-	5.1
Cash	5.7	-
Total	100	100

Distribution history	Cents per unit
June 2008	2.15
June 2007	4.11
June 2006	2.89
June 2005	0.31

Country weights	Fund %	Benchmark %
Asia	2.8	11.8
Europe (ex UK)	30.5	22.6
North America	30.2	55.5
United Kingdom	30.8	10.1
Cash	5.7	-
Total	100	100

Fund details	
Total funds under management	$413.7 million
NAV unit price at review date	$1.1471
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
Distributions	Paid annually as at 30 June

Comment from Morgan Stanley's Global Franchise team

The month of September and the quarter ended September saw significant declines in markets in US dollar terms. Increasing fear of the consequences of the credit crisis and slowing economic activity dominated market activity and also prompted a shift away from stocks in the cyclical and commodity sectors. However, this fall in markets was largely masked by an equally dramatic fall in the Australian dollar during the period. For the sake of simplicity, we reference the Australian dollar returns. The three strongest sectors during the quarter were consumer staples (+20%), health care (+19%) and financials (+11%). The three worst performing sectors for the period were materials (-19%), energy (-12%) and industrials (0%). The MSCI World Index returned -3.6% for the month and +3.6% for the quarter.

The returns of the portfolio were not entirely immune to the factors affecting markets during the period under review. However, the steadfast focus on stocks exhibiting franchise characteristics that has resulted in the portfolio's historical capacity to protect capital in challenged markets, again benefited the portfolio's returns during this period. The portfolio returned +1.8% during September, and +14.9% for the quarter. The three strongest stocks in the portfolio for the quarter were Scotts Miracle-Gro (+65%), Kellogg (+43%) and Procter & Gamble (+40%). Their contributions to the quarterly return were +75 bps, +102 bps and +104 bps, respectively. For the same period, the three weakest performing stocks in the portfolio were C&C (-41%), Kone (-8%) and Cadbury (-2%). Their contributions were -85 bps, -31 bps and -9 bps respectively.

In keeping with our buy-and-hold approach to investing, there were no new positions or final sales in the fund during September and July.

In August, we sold our holdings in WPP and Dr Pepper Snapple. We received shares in Dr Pepper Snapple when it was spun out of Cadbury earlier in the year. Our sale of WPP was prompted by increasing capital discipline concerns, as evidenced by the recently announced hostile bid for Taylor Nelson Sofres.

Outlook

We remain focused on the Global Franchise philosophy of investing exclusively in companies demonstrating exceptional quality and compelling value. We continue to seek investment opportunities in companies with strong business franchises protected by a dominant intangible asset. Additionally, we demand sound management, substantial free cash flow and growth potential.

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.

* Past returns is not a reliable indicator of future returns. Total returns are calculated based on changes in net asset values and assumes the reinvestment of distribution.

How to contact Macquarie

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