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FRANCHISE PARTNERS™

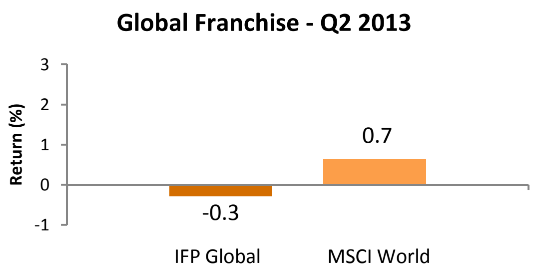
Independent Franchise Partners, LLP
Level 5, 20 Balderton Street
London W1K 6TL

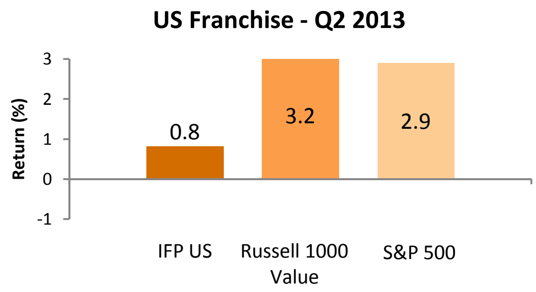
www.franchisepartners.com
+44 20 7495 9070

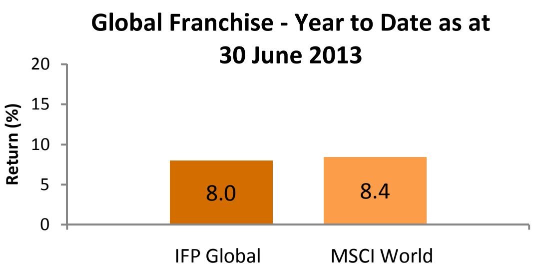
Second Quarter 2013 Global and US Franchise Commentary

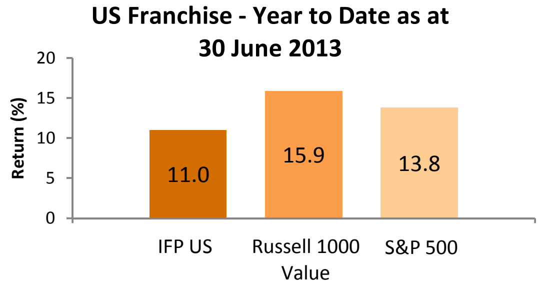
Executive summary

The US Franchise strategy delivered positive returns and Global Franchise was marginally negative during the second quarter. Both strategies lagged the broader market. Both the Global and US Franchise strategies have delivered good absolute returns but risen less than the overall equity markets since the beginning of the year. This is typical of the behavior of Franchise portfolios in sharply rising markets. The 19% increase in US financials during the first half of the year contributed roughly one-third of the return in the Russell 1000 Value but had much less of an impact in the MSCI World Index.









Returns in USD and net of fees for the representative accounts. Please refer to the disclosure at the end of this document for details.
Source: Independent Franchise Partners, LLP and Northern Trust.

During the second quarter, we initiated a position in **Zimmer** in both Global and US Franchise. We also reduced the position in **Moody's** in both strategies and re-invested the proceeds in **McGraw-Hill**. In Global Franchise, we added to the **Imperial Tobacco** position and reduced the positions in **GlaxoSmithKline** and **Japan Tobacco**. In US Franchise we sold the **Reynolds American** position, allocating some of the proceeds to **Philip Morris International**.

The estimated free cash flow yield for Global Franchise is 6.7% and the estimated free cash flow yield for US Franchise is 6.6%.

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The first half 2013 US Franchise web-cast will be held on Wednesday July 24th and the Global Franchise web-cast will be held on Thursday July 25th. While these web-casts are primarily geared for fund clients, they are open to any of our existing institutional clients and their consultants. Please let us know if you would like to register to participate.

Investment returns – Q2 2013

	Global Franchise (%)				US Franchise (%)			
	Top		Bottom		Top		Bottom	
Stock Returns (%)	**Microsoft**	**+21%**	C&C Group	-16%	**Microsoft**	**+21%**	**Apple**	**-10%**
	Swedish Match	+17%	**Apple**	**-10%**	**Coach**	**+15%**	**ABI**	**-9%**
	Coach	**+15%**	Diageo	-10%	Moody's	+15%	Nestlé	-8%
	Moody's	+15%	**ABI**	**-9%**	Scotts Miracle-Gro	+12%	**Mondelēz**	**-6%**
	Scotts Miracle-Gro	+12%	Nestlé	-8%	Reynolds American	+9%	PMI	-6%

Total returns in USD for the period the stock was held during Q2 2013. Source: Independent Franchise Partners, LLP and Factset.

	Global Franchise (bps)				US Franchise (bps)			
	Top		Bottom		Top		Bottom	
Contribution to Portfolio Return (bps)	**Microsoft**	**+48**	**Apple**	**-32**	**Microsoft**	**+62**	**ABI**	**-33**
	Moody's	+42	**Mondelēz**	**-30**	Moody's	+58	PMI	-33
	Coach	**+32**	**ABI**	**-28**	Johnson & Johnson	+40	**Mondelēz**	**-32**
	Japan Tobacco	**+31**	Diageo	-25	Scotts Miracle-Gro	+40	**Apple**	**-32**
	Swedish Match	+31	Nestlé	-22	GlaxoSmithKline	+36	**Accenture**	**-26**

Contribution to portfolio return in USD. For complete attribution and methodology, please contact clientservice@franchisepartners.com
Source: Independent Franchise Partners, LLP and Factset.

Microsoft benefits from good quarterly results and activist attention

Microsoft's stock price benefitted from good quarterly results and continued evidence of commercial progress in its cloud-based services. In addition, the disclosure of a $2bn stake held by activist investors at ValueAct Capital seems to have focused the market's attention on the potential for corporate action to unlock latent value in the shares. Despite the recent strength, the company's shares offer an estimated free cash flow yield of 8.7%.

Strong quarterly results also aid Coach and Japan Tobacco…

Both **Coach** and **Japan Tobacco** reported solid results in April. For **Coach**, the quarterly results provided evidence that its new lifestyle accessory initiative is starting to meet with consumer acceptance. Coach's shares offer an estimated free cash flow yield of 7.1%.

In addition to healthy annual results, **Japan Tobacco** raised its dividend payout ratio and made further indications that it is continuing to move towards a more shareholder friendly capital allocation model. The company continues to recapture market share lost following the production disruptions caused by the Great East Japan Earthquake of 2011. Japan Tobacco's shares offer an estimated free cash flow yield of 5.8%.

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…but Accenture's and Anheuser-Busch InBev's quarterly results were weak

At the end of June, **Accenture** reported third quarter results which were below market expectations and company guidance. Revenue growth was weaker due to continued cyclical weakness in short-term consulting projects, especially in Europe, Brazil and Japan. In our view, both the long-term category growth and the business model remain attractive. Accenture's shares offer an estimated free cash flow yield of 7.3% and a dividend yield close to 3%.

ABI also reported weak results during the quarter due to weakness in the US and Brazil, the company's two largest markets. The stock was also hurt by a general sell-off in emerging market dominated stocks, particularly those with meaningful exposure to the Brazilian Real. ABI's shares offer an estimated free cash flow yield of 6.5%.

Mondelēz sets out modest goals

During the quarter, **Mondelēz** affirmed its long term financial targets of 5-7% organic revenue growth and 10%+ operating earnings growth. The company also announced margin expansion plans by region, with the goal of improving operating margins by 20-30bps per annum through 2015. Our analysis suggests that the company should be able to achieve these goals, however the market may have been disappointed by their apparent modesty. Mondelēz's shares offer an estimated free cash flow yield of 6.3% and a 2.0% dividend yield.

Android and lull in new product launches weigh on Apple

The continued market share gains by Android, mainly at the expense of Blackberry and Nokia, as well as a lack of new products from **Apple** continue to weigh on the stock. We are not unduly concerned by the lull in new product introductions, particularly after the significant launches from Apple in the fourth quarter of 2012 and the likely launches of new products later this year. We continue to see evidence of the vibrant ecosystem, heavy usage statistics and high repurchase intent of Apple users. We also believe that the valuation remains attractive. Apple's shares offer an estimated free cash flow yield of close to 12% which, when combined with a net cash balance equal to almost 40% of the market value, we believe more than compensates for the risks associated with the company.

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Portfolio changes emphasize quality and valuation – Q2 2013

	Initial Purchase	Addition	Reduction	Final Sale
Global Franchise	Zimmer	Imperial Tobacco McGraw-Hill	GlaxoSmithKline Japan Tobacco Moody's	--
US Franchise	Zimmer	McGraw-Hill PMI	Moody's	Reynolds American

Reflects initial purchases, final sales and stocks for which there was a material change in portfolio weight during the quarter.

Initiated a position in Zimmer in Global and US Franchise

We began building a position in **Zimmer**, the medical device manufacturer, in April. Zimmer has leading positions in the attractive market for hip and knee implants in the US and Europe. Long term volume growth is underpinned by the ageing of developed market populations. In addition, barriers to entry are high due to the strong relationship that Zimmer enjoys with orthopaedic surgeons. There is modest price deflation in Zimmer's categories as hospitals and payers have increased their focus on healthcare costs. However, we believe that this is containable through incremental innovation, strong customer service and the inherently conservative preferences of surgeons. Zimmer's management team has been disciplined in its approach to capital allocation and has returned over 100% of free cash flow to shareholders since 2007. At an estimated free cash flow yield of 7.6%, Zimmer offers good free cash flow compounding potential at an attractive valuation.

Added to Imperial Tobacco in Global Franchise

In May, we increased the **Imperial Tobacco** position in Global Franchise. The stock price has lagged its global peers since the trough in financial markets five years ago. This is primarily due to its exposure to Western European markets where excise tax increases, illicit trade and a weak economic environment have hurt industry volumes. Despite the challenging operating environment, we believe that the company will generate mid-single digit earnings growth, primarily through pricing. In addition, management has other opportunities to unlock shareholder value, including asset disposals. The estimated free cash flow yield is now 8.1% and the dividend yield is over 5%.

Sold Reynolds American and allocated some of the proceeds to PMI in US Franchise

We have owned Reynolds American since the inception of the US Franchise strategy in June 2005. The company has compounded free cash flow and the stock has generated an attractive total return over that period. The stock now offers an estimated free cash flow yield of 6.5%, which is optically attractive but in our judgment does not sufficiently compensate for the risks associated with a single-country tobacco business. We reinvested some of the proceeds into Philip Morris International which offers a similar valuation and is a more globally diversified business with stronger brands and better pricing power.

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Reduced Moody's and added to McGraw-Hill in both Global and US Franchise

There was a brief window earlier this month when the implied valuation of the S&P business inside McGraw-Hill was substantially lower than the valuation of Moody's, its closest peer. The market was valuing this division for much less than Moody's even though it generates more free cash flow from a similar or arguably better mix of businesses. The most likely reason for this is that the US Department of Justice and individual state attorneys general are suing S&P for fraud in relation to certain ratings issued during the period leading up to 2008. A similar case has not been filed against Moody's. While the headline claims are large, our analysis suggests that the case is likely to be settled over the coming years at a much smaller value than the claim. Given the large valuation disparity, we added to our position in McGraw-Hill and reduced the position in Moody's by a similar amount. McGraw-Hill offers an estimated free cash flow yield of 7.8% and a dividend yield of 2.1%.

Reduced Japan Tobacco and GlaxoSmithKline in Global Franchise

In April we reduced the size of the **Japan Tobacco** position in Global Franchise. Japan Tobacco has been the best performing global tobacco company in the period since we bought the shares in mid-2011. Whilst we continue to see potential for good cash flow compounding and capital returns, the estimated free cash flow yield of just under 6% did not offer enough of a margin of safety to warrant such a large position.

Since the purchase of **GlaxoSmithKline's** shares in February 2010 they have compounded in a steady manner and now offer an estimated free cash flow yield of 6.9%. We continue to see good capital discipline and some encouraging signs from the pipeline of new drugs at the company but believe a smaller position is more appropriate in the Global Franchise portfolio.

Franchise portfolios continue to offer attractive free cash flow yields

After the portfolio changes outlined above, the Global and US Franchise portfolios offer estimated free cash flow yields of 6.7% and 6.6% respectively for next year.

Ongoing research

During the quarter we held due diligence meetings with over 40 companies, including Abbott Laboratories, Accenture, Anheuser-Busch InBev, C&C Group, Coach, Dentsply, Equifax, Experian, IHS, Imperial Tobacco, Johnson & Johnson, LVMH, McDonald's, McGraw-Hill, Mondelēz, PepsiCo, Reynolds American, Scotts Miracle-Gro, Tiffany and Verisk Analytics.

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The document has been prepared as information for investors and it is not a recommendation to buy or sell any particular security or to adopt any investment strategy. The comments and free cash flow yield estimates reflect the views of Independent Franchise Partners, LLP at the date of publication and are subject to change without notice to the recipients of this document. Free cash flow yield estimates are based on the Firm's proprietary research and methodology.

The goal of the Franchise strategies is to earn attractive long-term returns while minimising business and valuation risk. All investments involve risk including the loss of principal. Past returns are no guarantee of future results.

Return data has been provided for informational purposes only as an indication of the investment team's record in managing Global Franchise and US Franchise portfolios. Returns have been provided for our representative Global and US Franchise portfolios, reduced by a pro-rated current management fee: 0.80% for Global Franchise and 0.68% for US Franchise. These fees reflect the standard management fee that applies while total firm assets remain above $5 billion. Additional costs and other fees may apply (e.g. custody, fund expenses) so actual returns achieved may be lower. Full composite returns and disclosure are available upon request.

The volatility of the indices referred to in this letter may be materially different from the individual performance attained by a specific investor. In addition, client and fund holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent an appropriate benchmark to compare an investor's performance, but rather are disclosed to allow for comparison of the investor's performance to that of certain well-known and widely recognised indices. You cannot invest directly in an index.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed global markets.

The S&P 500 Index is a capitalization index that is designed to measure the equity market performance of 500 stocks representing all major US industries.

The Russell 1000 Value Index is designed to measure the equity market performance of those Russell 1000 companies with lower price-to-book ratios.

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