Strategy Update: 30 June 2020

MFG ASSET MANAGEMENT

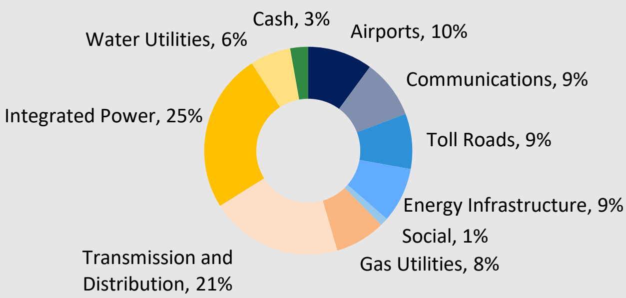
MFG Core Infrastructure (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets [1]
Gerald Stack	18 January 2012	USD $5,637.5 million	USD $10,955.6 million

Objective	Approach
Capital preservation in adverse markets	Diversified rules-based portfolio applying our proprietary infrastructure classification
Pre-fee return of CPI plus 5% p.a. through the economic cycle	Highly defensive, inflation-linked exposure
	Benchmark unaware

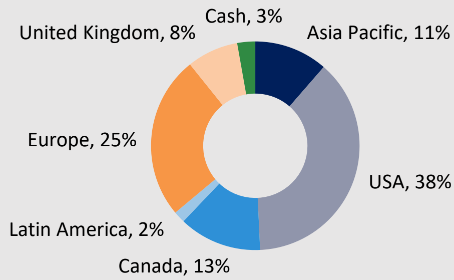
Top 10 Holdings[2]	Sector	%
Cellnex Telecom SA	Communications	3.2
National Grid PLC	Transmission and Distribution	3.2
Transurban Group	Toll Roads	3.0
Vinci SA	Toll Roads	3.0
Fortis Inc	Transmission and Distribution	2.9
TC Energy Corp	Energy Infrastructure	2.8
Snam SpA	Gas Utilities	2.8
Enbridge Inc	Energy Infrastructure	2.8
Aena SME SA	Airports	2.8
Terna SpA	Transmission and Distribution	2.3
	TOTAL:	28.8

Sector Exposure[2]



USD 5 Year Risk Measures[4]	Against Global Equities	Against Infrastructure Benchmark[5]
Upside Capture	0.6	1.0
Downside Capture	0.3	0.7
Beta	0.6	0.7
Correlation	0.7	0.9

Geographical Exposure[2]



Cumulative Performance[3]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	8.7	-2.4	4.6	8.3	8.8	9.8
Composite (Net)	8.5	-2.8	4.0	7.6	8.1	9.1
Global Infrastructure Benchmark	13.6	-15.4	-1.8	1.7	3.8	4.7
Excess (Gross)	-4.9	13.0	6.4	6.6	5.0	5.1
MSCI World NTR Index	19.4	2.8	6.7	6.9	8.4	9.5

Annual Performance[3]	CYTD (%)	2019	2018	2017	2016	2015	2014	2013	2012*
Composite (Gross)	-9.9	29.0	-6.1	21.2	7.2	-0.1	17.4	14.0	16.4
Composite (Net)	-10.2	28.2	-6.7	20.4	6.5	-0.8	16.6	13.2	15.6
Global Infrastructure Benchmark	-19.7	25.8	-10.4	19.1	11.4	-12.2	14.1	14.4	7.0
Excess (Gross)	9.8	3.2	4.3	2.1	-4.2	12.1	3.3	-0.4	9.4
MSCI World NTR Index	-5.8	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	13.0

1 Comprised of all Infrastructure Strategies.
2 The data is based on a representative portfolio for the strategy. Refer to the GIPS Disclosure below for further information. Sectors are internally defined. Geographical exposure is by domicile of listing. Exposures may not sum to 100%/total due to rounding.
3 Returns are for the Global Core Infrastructure Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Refer to the GIPS Disclosure section below for further information. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.
4 Risk measures are for the Global Core Infrastructure Composite before fees. The Global Equity Index is the MSCI World NTR Index.
5 The Benchmark or Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities NTR Index and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index. Note: the UBS Developed Infrastructure and Utilities NTR Index ceased to be published from 31 May 2015, replaced on 1 January 2015 with the S&P Global Infrastructure Index NTR.
* Returns are only for part year.

IMPORTANT NOTICE

The Global Infrastructure Benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index Net Total Return and from 1 January 2015 the benchmark is S&P Global Infrastructure Net Total Return Index. The benchmark changed because UBS discontinued their index series.
The UBS Developed Infrastructure & Utilities Index Net Total Return is a market capitalisation weighted index that is designed to measure the equity performance of listed Infrastructure and Utility stocks. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.
The S&P Global Infrastructure Net Total Return Index is a market capitalisation weighted index that is designed to track 75 companies from around the world diversified across three infrastructure sectors energy, transportation and utilities. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) claims compliance with the Global Investment Performance Standards (GIPS ®)

For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management, excluding portfolios managed by brands operating as distinct business entities. MFG Asset Management is a wholly-owned subsidiary of the publicly listed company Magellan Financial Group Limited. MFG Asset Management is based in Sydney, Australia. Total Firm assets is defined as all assets managed by MFG Asset Management, excluding assets managed by subsidiaries operating as distinct business entities.

The Global Core Infrastructure composite is a global strategy investing in strictly defined or "pure" infrastructure companies (typically 80-100). The filtered investment universe is comprised of stocks that 1. generate reliable income streams, 2. benefit from inflation protection and have an appropriate capital structure. The investment objective of the strategy is to minimise the risk of permanent capital loss; and achieve superior risk adjusted investment returns over the medium to long-term. The composite was created in February 2012.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions are available upon request by emailing client.reporting@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

USD is the currency used to calculate performance.

Strategy Commentary

The strategy recorded a positive return in the June quarter. Stocks that contributed the most included the investments in Cellnex and Aena of Spain and Australia's Transurban. Cellnex continued to perform strongly in the market as investors considered the defensive nature of wireless communication during the pandemic and the growth opportunity in communication towers in Europe. Transurban gained on a view its traffic recovery would make good progress on its toll roads in Australia. Aena recovered from lows as travel restrictions eased in Europe.

The biggest detractors included the investments in TC Energy of Canada, US utility Consolidated Edison and Hong Kong's Power Assets Holdings. Consolidated Edison was down over the period due to cuts to full-year earnings guidance. TC Energy saw weakness due to the political concerns surrounding its Keystone XL Pipeline. Power Assets saw share price weakness over the period as investors absorbed news about Beijing's new security laws in Hong Kong.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.

Stock Story: Red Electrica

RED ELÉCTRICA DE ESPAÑA

Europe wants to become greener in energy terms. Spain is ambitious in this area too. In April, Madrid submitted its plan to the EU that declared the country is aiming for renewables to produce 74% of total electricity by 2030 and 42% of total energy demand. To show how ambitious Spain is, the plan entails installing more than two gigawatts of wind energy capacity and three gigawatts of solar capacity each year through the decade. This is a huge investment in clean energy.

This is a big opportunity for Red Electrica, which operates Spain's electricity power transmission grid. The Madrid-based utility, which earned two billion euros in revenue in 2019, performs a critical role in the functioning of the electricity market. Its responsibilities include not only building and maintaining the high-voltage transmission grid but also the day-to-day operations of the market and the long-range planning for the system through its role as the transmission system operator.

To keep up with the rapid growth in maintenance, intra-European connectivity and renewable energy, the company plans to spend about 2.9 billion euros over 2018 to 2022, a 39% increase in the annual rate of spending compared with the prior business plan. While the company is still working through its latest long-term plan, it is likely Red Electrica's investment spending will remain at these elevated levels.

In many businesses, capital expenditure would be considered a cost to investors. However, in a well-functioning regulated utility market, the company is entitled to receive compensation for the fair costs of running the business. This cost is paid primarily by customers and businesses through a component of the electricity access tariffs. As such, the capital spending falls within the 'fair costs' on which the company earns a regulated return, the source of 91% of Red Electrica's gross profits in 2019. It is already decided that Red Electrica will be allowed to earn a base return of 5.58% on its regulated asset base from 2021 to 2025, with an opportunity for higher returns if the company can find efficiencies in its operations.

Another favourable dynamic is the recent improvement in the regulatory oversight for the company. In 2019, the Spanish government granted increased independence to the National Commission of Markets and Competition, the regulatory body tasked with, among other things, setting the fair level of revenues that Red Electrica can charge. This came about due to a mandate from the European Commission. From an investment perspective, independent economic regulation is critical to investors receiving predictable, transparent and fair outcomes. This is especially true in areas as politically sensitive as energy prices.

In addition to its Spanish grid, Red Electrica has been gradually developing and acquiring a collection of electricity transmission assets in South America, including assets in Chile, Peru and, more recently, Brazil. These assets typically generate capacity-payment (that is, predominantly fixed) income streams.

Overall, the better regulation and capital expenditure opportunity in Spain position Red Electrica to deliver what investors expect from a utility and infrastructure stock; namely, one that will deliver reliable income streams with some capital growth.

However, like any investment, Red Electrica comes with risks. The company, for instance, has in recent years acquired a stake in a satellite provider Hispasat that is too far outside of the core business to be judged an attractive acquisition. However, this investment is a minority in the business mix and doesn't undermine the overall investment case.

Further, like many utilities, Red Electrica employs significant debt to fund its significant capital needs. However, the rating agencies are sanguine about Red Electrica's financial profile. (Moody's has an investment-grade Baa1 rating on the company; Standard & Poor's and Fitch rate it A-).

Finally, as for every business now, covid-19 poses operational and financial challenges. In Spain, electricity demand has fallen significantly during the lockdown and is still gradually recovering to prior levels. However, from an investment perspective, Red Electrica's exposure to this is minimal and its revenues are largely fixed, with any shortfall legally required to be compensated in future years.

Sources include company filings and website and Bloomberg.