Strategy Update: 31 December 2018

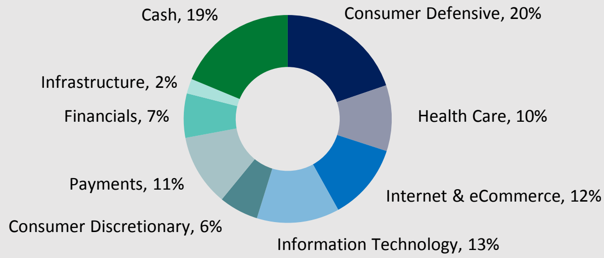
MFG Global Sustainable (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Global Assets [1]
Domenico Giuliano	1 October 2016	USD $64.9 million	USD $36,925.5 million

Objective	Approach
Capital preservation in adverse markets	High conviction (20-50 securities), high quality focus, low turnover
Attractive absolute risk-adjusted returns through the economic cycle	Dual-sleeve portfolio construction with dynamic allocation to cash (max 20%) Combined Risk Ratio cap of 0.8^
Deliver carbon intensity less than 1/3 of MSCI World	Integrated ESG with proprietary, multi-dimensional carbon emissions management

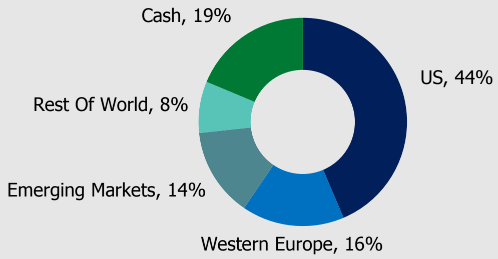
Top 10 Holdings[2]	Sector[2]	%
Alphabet Inc	Internet & eCommerce	6.0
Starbucks Corp	Consumer Defensive	4.9
Facebook Inc-A	Internet & eCommerce	4.5
Microsoft Corp	Information Technology	4.4
Visa Inc	Payments	4.1
Oracle Corp	Information Technology	3.9
Yum! Brands Inc	Consumer Defensive	3.8
Lowe's Co Inc	Consumer Discretionary	3.7
American Express Co	Payments	3.6
MasterCard Inc	Payments	3.5
	TOTAL:	42.4

Sector Exposure[2]



Strategy Fundamentals[2]	Strategy	Index
Number of Holdings	28	1,602
Carbon Intensity#	24.1	198.4
Return on Equity	24	16
P/E Ratio (1 year forward)	17.2	14.5
Interest Cover	17	11
Debt/Equity Ratio	52	50
Active Share	87	n/a
Weighted Average Market Cap (USD million)	185,423	n/a

Geographical Exposure[2]



Cumulative Performance[3]	3 Months (%)	1 Year (%)	2 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	**-10.2**	**-1.0**	**9.6**	**8.6**
Composite (Net)	-10.4	-1.8	8.8	7.8
MSCI World NTR Index	-13.4	-8.7	5.7	5.9
Excess (Gross)	3.2	7.7	3.9	2.7
MSCI World Low Carbon Target NTR Index	-13.4	-8.9	5.5	5.6

Annual Performance[3]	2018	2017	2016*
Composite (Gross)	**-1.0**	**21.4**	**0.3**
Composite (Net)	-1.8	20.4	0.1
MSCI World NTR Index	-8.7	22.4	1.9
Excess (Gross)	7.7	-1.0	-1.6
MSCI World Low Carbon Target NTR Index	-8.9	22.3	1.5

1 Comprised of all Global Strategies.
2 The data is based on a representative portfolio for the strategy. Sectors are internally defined. Geographical exposure is calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio. Exposures may not sum to 100% due to rounding. The Index is the MSCI World NTR Index. Refer to the Important Notice below for further information.
3 Returns are for the Global Sustainable 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.
^ Combined risk ratio is a measure of relative beta and relative drawdown to MSCI World NTR USD Index. Please contact MFGAM should you wish for further details on the calculation.
* Returns are only for part year.
[#]MSCI World Index Carbon Intensity level as at 29 June 2018.

The MSCI World Index (Net) is a free-float adjusted market capitalization weighted index that is designed to measure the equity performance of 24 developed markets. 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 subsidiaries operating as distinct business entities.

The Global Sustainable composite is a concentrated global equity strategy investing in high quality companies (typically 20-50 stocks) with an integrated low carbon overlay. High quality companies are those companies that have sustainable competitive advantages which translate into returns on capital materially in excess of their cost of capital for a sustained period of time. The investment objectives of the Global Sustainable strategy are to earn superior risk adjusted returns through the business cycle whilst minimising the risk of a permanent capital loss with an integrated ESG strategy with meaningfully lower carbon intensity than broader equity markets. The composite was created in October 2016. Prior to May 29, 2018 the composite was named the Global Low Carbon Composite.

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.

Market Commentary

Global stocks in the December quarter staged their worst quarterly performance in more than seven years after tighter US monetary policy, releases of leading economic indicators pointing to lower economic growth, tensions between China and the US, key resignations from the US administration, and political uncertainty in Europe fanned doubts about the global economic outlook. During the quarter, 10 of the 11 sectors fell in US-dollar terms. Energy (-22%) and IT (-17%) fell most while utilities (+0.5%) rose.

US stocks slumped as political uncertainty intensified and the Federal Reserve disappointed those who hoped the central bank would end its rate increases when it delivered an expected increase in December. The Fed raised the US cash rate by 25 basis points to between 2.25% and 2.5%, the fourth rate increase of 2018 and the ninth rate increase since the global financial crisis. Investors were disappointed that the Fed only reduced it's forecast for rate increases in 2019 from three to two – some were hoping for none. Concerns about the stability of the administration of President Donald Trump swelled after Defence Secretary James Mattis quit in December over Trump's decision to pull US troops from Syria. Concerns rose further when an impasse with Congress about paying for a wall along the Mexican border led to a partial government shutdown, and Trump reportedly looked into sacking Jerome Powell, his appointee as Fed chairman, for raising US rates too fast. The US ended 2018 with the jobless rate at a 49-year low of 3.7% and inflation largely contained to about 2% on key barometers.

European stocks fell as the European Central Bank said it would end its net asset-buying by year end, even though concerns grew that the eurozone economy is stalling, Reports showed that the eurozone economy only expanded 0.2% in the third quarter, as Germany's economy contracted the same amount. Markets continued to focus on political concerns in France, Germany, Italy and the UK grew and the risk of a recession in the eurozone rose after Germany's economy contracted in the September quarter. In France, judged a source of renewed European integration since centrist Emmanuel Macron won presidential elections last year, Macron's credibility was dented after he buckled to the widespread demands of yellow vest protesters, whose original gripe was against an increase in the tax on petrol and diesel for environmental reasons. German politics was jolted when the political party (and its Bavarian equivalent) led by Chancellor Angela Merkel fared so poorly in two state elections in October she said she would step down as leader of the Christian Democratic Union in December. This unexpected decision raised doubts about how long Merkel can survive as leader of Europe's biggest economy (which she can do even after she stepped down as party leader). Italy's new government created uncertainty when the EU rejected its proposed budget deficit for fiscal 2019, an unprecedented step against any EU member. In the UK, the government of Theresa May postponed a parliamentary vote on Brexit from December 11 until mid-January, heightening talk the UK will depart from the EU without any agreement.

Japanese stocks tumbled after the Bank of Japan trimmed its inflation forecast for fiscal 2020 to 1.5%, which is under its goal of 2%. Chinese stocks fell as the trade dispute with the US and a crackdown on shadow lending intensified doubts about the strength of its economy. Emerging markets overall slid on the gloomy global outlook.

Strategy Commentary

The strategy recorded a negative return for the quarter. The stocks that struggled most included the investments in Apple, Fresenius Medical Care of Germany and Facebook. Apple tumbled after earnings downgrades by key suppliers raised concerns about the strength of demand for Apple's latest devices. Fresenius slumped after the dialysis company issued two earnings warnings in consecutive months due to emerging-market weakness and a lower percentage of commercial patients in the US. Facebook fell after media reports attacked how top executives handled fake news, privacy issues and other incidents.

Stocks that performed best included the investments in Starbucks and Yum! Brands. Starbucks surged after faster-than-expected sales growth of 4% in the Americas and 3% globally for the third quarter beat expectations, and the coffee chain said it would cut about 5% of the workers based in its headquarters in Seattle to reduce costs. Yum! Brands rose after same-store sales and profit for the third quarter outdid expectations.