MFG CORE INFRASTRUCTURE STRATEGY

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Head of Investments and Head of Infrastructure

The Core strategy aims to provide investors with returns that are underpinned by our conservatively defined universe of listed infrastructure assets. This approach is intended to provide investment returns that have lower correlation to risks such as commodity prices, competition and the economic cycle. This provides investors with a more defensive exposure to the asset class. The Core strategy portfolio typically holds between 80 and 100 stocks.

PERFORMANCE

Global stocks rose in the 12 months to June 2020 after huge fiscal and monetary stimulus offset the damage from the coronavirus to economic activity, company profits and investor confidence. But infrastructure stocks fell over the 12 months as the restrictions on everyday activity, including air and road travel, hit these stocks to a greater degree.

The strategy recorded a gross return of minus 2.4% for the 12 months in US dollars. Stocks that detracted the most included the investments in the airport operators ADP of France (-1.0% of the total portfolio return), Aena of Spain (-0.8%) and transmission and distribution company Power Assets Holdings of Hong Kong (-0.6%). ADP, which runs the airports of Paris, and Aena, the world's largest airport operator, dived after the outbreak of the virus that causes the illness called covid-19 prompted governments to close borders and order their populations not to travel to control the pandemic. Power Assets fell after China moved to implement new security laws that were widely viewed to reduce the region's political independence.

Stocks that contributed the most included the investments in Cellnex Telecom of Spain (+1.6%), American Tower (+0.5%) and SBA Communications of the US (+0.5%). The trio of companies that own communications towers that provide co-location space to wireless carriers rose as investors judged they would benefit from higher demand for data across mobile telephony and the internet as a locked-down world went online.

OUTLOOK

Notwithstanding our expectations for greater volatility in the short to medium term driven by the covid-19 crisis, we are confident that the underlying businesses that we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses that we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices in the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We expect the strategy to provide investors with real returns of about 5% above inflation over the longer term. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, given the resilient nature of earnings and the structural linkage of those earnings to inflation, investment returns generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them attractive and an investment in listed infrastructure can be expected to reward patient investors with a long-term time frame.

Performance as at 30 June 2020 [1]

Performance (USD)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since inception (% p.a.)
MFG Core Infrastructure Strategy (Gross)	**-2.4**	**4.6**	**8.3**	**8.8**	**-**	**9.8**
MFG Core Infrastructure Strategy (Net)	**-2.8**	**4.0**	**7.6**	**8.1**	**-**	**9.1**

1 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. Inception date is 18 January 2012.

PORTFOLIO POSITIONING[2]

Top-10 holdings at 30 June 2020

Security	Weight (%)
Cellnex Telecom SA	3.2
National Grid PLC	3.2
Transurban Group	3.0
Vinci SA	3.0
Fortis Inc	2.9
TC Energy Corp	2.8
Snam SpA	2.8
Enbridge Inc	2.8
Aena SME SA	2.8
Terna SpA	2.3
Total	**28.8**

Our investment philosophy has not changed since we launched the strategy. We seek to build a portfolio of outstanding infrastructure and utility companies that deliver reliable returns through the economic cycle.

The types of assets in which the strategy invests are generally natural monopolies that provide an essential service to the community. Infrastructure assets offer investors protection against inflation because their earnings generally have some direct linkage to inflation. Over time, the stable revenue or cash-flow streams derived from infrastructure assets are expected to deliver income and capital growth for investors.

Where our strategy is different is that we apply a stricter definition as to what qualifies as infrastructure. We want to limit our investment universe to stocks that provide investors with predictable, through-the-cycle, inflation-protected returns. This means that we exclude infrastructure stocks whose earnings are exposed to competition, excessive sovereign risk and changes in commodity prices.

A key feature of the portfolio-construction process for our Core infrastructure strategy is the application of what we call "the 75% rule". This relates to those companies whose assets are a mixture of assets that we classify as infrastructure and those assets that do not meet our strict requirements. In those circumstances, we require at least, and on a consistent basis, 75% of the company's earnings to be derived from the assets that meet our infrastructure and utilities definition before it can be included in the Core portfolio.

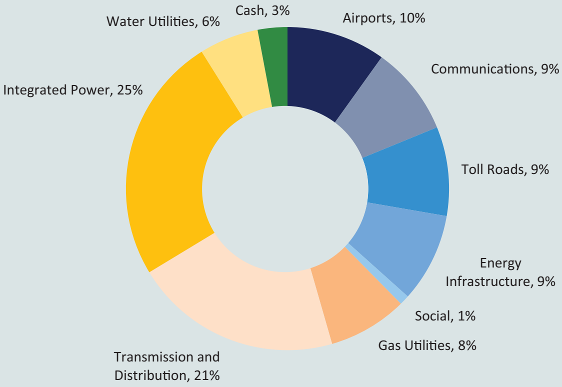
Application of this rule leads to a universe of infrastructure assets that we consider for the strategy to comprise mainly two sectors; namely, regulated utilities, which includes energy and water utilities, and infrastructure, which includes airports, ports, railroads, toll roads, communications assets and energy infrastructure (oil and gas pipelines).

Utilities and infrastructure companies provide essential services while facing limited, if any, competition. Because the services are indispensable, the prices charged can be adjusted with limited impact on demand. As a consequence, earnings are more reliable than those for a typical industrial company and generally enjoy inherent protection against inflation.

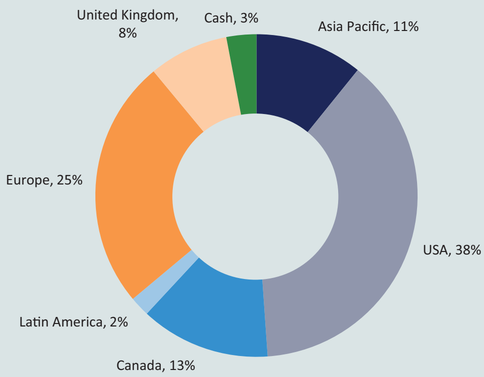
2 Portfolio positioning based on a representative portfolio for the strategy, exposures may not sum to 100% due to rounding.

Portfolio construction follows a rules-based approach in order to achieve broad-based and diversified exposure to the high-quality infrastructure companies eligible for inclusion in the strategy. The sector and geographical exposures as at 30 June 2020 are shown below:

Sector Exposure



Geographical Exposure



While the strategy's process has not changed from prior years, the current economic climate due to covid-19 has resulted in disruptions to the operations of utilities and infrastructure companies due to the impact of lockdowns and social distancing. Within the portfolio, companies most exposed to the effects of this shutdown are airports and toll roads. Combined these represent 19% of the strategy. The remaining 81% of the portfolio, to date, has been largely unaffected by the shutdowns enacted around the world.

While toll roads will face a hit to earnings in the short term, we are confident that traffic and consequent earnings will return to more normal levels over the medium term. Indeed, given the natural reluctance of people to travel on public transport in the absence of a vaccine, it might be that traffic levels return to pre-covid-19 levels relatively quickly. We expect airports are likely to be the most difficult sector while the virus remains an active threat. While we believe a recovery is to be expected, there remains much uncertainty as to where traffic is likely to trend over the medium term.

Gerald Stack

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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 portfolios managed by MFG Asset Management, excluding assets managed by brands operating as distinct business entities.

The Global Core Infrastructure composite is a global strategy investing in strictly defined or "pure" infrastructure companies (typically 80-120). 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.