MFG CORE INFRASTRUCTURE STRATEGY

Gerald Stack,
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 soared to record highs in the 12 months to June 2021 after government and central bank stimulus helped economies recover from the pandemic, pharmaceutical companies hastened economic reopenings when they developed vaccines against the virus that causes the illness known as covid-19, the new US administration of President Joe Biden used the unexpected control of Capitol Hill it gained in January after surprise Senate election victories in Georgia to implement more fiscal stimulus, investors decided the Democrats' narrow control of Congress would prevent anti-business measures becoming law, and tech stocks reported earnings that showed how much they have benefited from the shift to online.

The portfolio recorded a gross return of 16.3% in US dollars for the 12 months. Stocks that contributed the most included the investments in Enbridge of Canada (+1.1% of the total portfolio return), Aena of Spain (+0.8%), and TC Energy of Canada (+0.7%). Enbridge benefited as President Joe Biden issued an executive order revoking the presidential permit for Keystone XL, a pipeline that was being developed between Canada and the US, increasing Canadian producer reliance on Enbridge's pipelines combined with the progress of the construction on the Line 3 replacement project.. Aena, the world's largest airline operator, rose on hopes that a vaccine for the virus that causes the illness known as covid-19 would return life – and passenger traffic – to normal more quickly. TC Energy rose as expectations of rising oil and gas prices supported by improving global growth prospects saw a market rotation into energy stocks. TC Energy was a beneficiary of this market rotation even though commodity prices exert little influence on its earnings in the near term

Stocks that detracted the most included the investments in Royal Vopak of the Netherlands (-0.1%), Dominion Energy of the US (-0.1%) and Aguas Andinas of Chile (-0.1%). Vopak, which stores oil, gas and chemicals, fell as the oil market slipped into 'backwardation', a term for when the price of a commodity's forward or futures contract is trading below the expected spot price at contract maturity. The unusual pricing condition reduces the demand for short-term storage. Dominion Energy, which supplies electricity and natural gas in the US south-east, declined as concerns about rising inflation and prospective increases in policy interest rates prompted investors to shun high-quality defensive assets in favour of more cyclical names. Aguas Andinas, a water utility, fell following a plebiscite in Chile in 2020 where people backed a constitutional convention. Investors became concerned that the rates of return derived in law that utilities enjoy could come under threat.

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 over the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

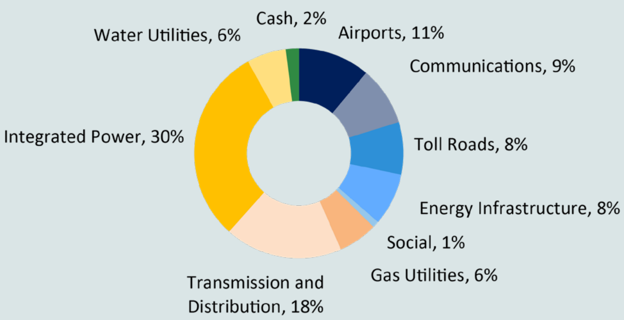
The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure. We expect the strategy to provide investors with real returns of 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.

PORTFOLIO POSITIONING[1]

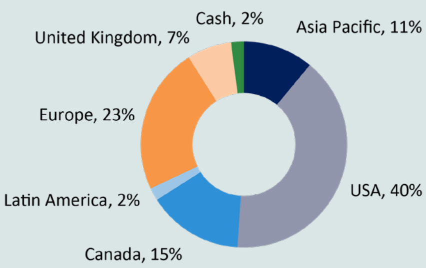
Top-10 holdings at 30 June 2021

Security	Weight (%)
Transurban Group	3.0
Enbridge Inc	3.0
TC Energy Corporation	3.0
Aena SME SA	3.0
Vinci SA	3.0
Cellnex Telecom SA	2.9
National Grid PLC	2.9
Fortis Inc	2.9
Snam SpA	2.7
Terna SpA	2.2
Total	**28.6**

Sector Exposure[1]



Geographical Exposure[1]



Investments in the Core strategy are selected by reference to a rigorous fundamental research process that implements our strict, proprietary definition of infrastructure. To qualify for inclusion in the strategy, prospective portfolio companies must meet three criteria:

1. They must be appropriately characterised as infrastructure. Our definition of an infrastructure company requires that the company must be engaged in the provision of essential services and generate reliable cash flows. Our insistence upon reliable cash flow generation distinguishes our approach from that of other infrastructure managers and leads us to exclude companies whose earnings have material exposure to competition, movements in commodity prices, or sovereign risk.
2. Their balance sheets must be sufficiently robust to withstand exogenous shocks. The focal point of this analysis is a requirement that all companies meet sector-specific minimum interest coverage ratios, struck to reflect the variability of cash flows.
3. The probability of environmental, social and governance (ESG) risk factors impairing expected future cash flows must be low. If we assess that there is a material probability that ESG risks will lead to a significant impairment of expected cash flows within our investment horizon, the company will be excluded from our investible universe.

To assess these criteria, we undertake extensive due diligence – meeting with management, interrogating financial statements, and consulting with industry experts – to develop a deep understanding of prospective portfolio companies and the business environment within which they operate.

The application of these criteria gives rise to a portfolio of companies that exhibit strong infrastructure characteristics, with reliable cash flows underpinned by transparent regulation or long-term contracts with creditworthy counterparties.

Portfolio construction follows a systematic approach designed to provide investors with efficient access to a broadly diversified portfolio of high-quality infrastructure securities. Portfolio weights are struck by reference to the relative free-floating market capitalisation of stocks in the strategy, subject to a series of risk controls that deliver targeted diversification at the security level, across infrastructure sub-sectors, and by geographic region.

The application of our systematic portfolio construction methodology yields a portfolio with a prominent skew towards regulated utilities and a notable geographic exposure to the US.

We judge that the fundamental prospects of the companies in the portfolio are extremely favourable.

The regulated electricity utilities in the portfolio (categorised as 'integrated power' and 'transmission and distribution' in the chart) typically operate within regulatory frameworks that protect their earnings against movements in fuel and purchased power costs. In most instances, regulatory mechanisms also moderate the sensitivity of earnings to changes in customers' consumption of electricity. Reflecting these supportive regulatory settings, almost all the electricity utilities in the portfolio reported 2020 financial results that were in line with or ahead of guidance issued prior to the pandemic, despite severe reductions in the volume of commercial and industrial demand precipitated by lockdowns.

The regulated electricity utilities in the portfolio present investors with a unique opportunity to have an impact on their communities by accelerating the transition to net-zero emissions while continuing to generate attractive risk-adjusted investment returns. The International Energy Agency (IEA) estimates that global renewable generating capacity will need to triple over the period to 2030 and increase nine-fold over the period to 2050 if the world is to achieve net zero by mid-century.[2] The IEA further projects that investments in electricity grids will triple to 2030, remaining at elevated levels until 2050.[3] In the US, where more than 60% of our regulated electricity utility investments are domiciled, Princeton University estimates that the transition to net zero will require investments in new wind and solar capacity totalling US$3.4 trillion to US$6.2 trillion and in new transmission capacity totalling US$2.5 trillion to US$3.7 trillion.[4] The augmentation of distribution networks to support the electrification of transportation is likely to require yet further significant investment. Under the regulatory construct, these investments boost the earnings potential of our electricity utilities, presenting investors with an opportunity to compound attractive risk-adjusted investment returns for a generation.

The water utilities in the portfolio are among the most defensive assets in the strategy. Stable underlying demand for water and wastewater services confers on the earnings of these companies a high degree of predictability. The replacement of ageing pipes and water treatment plants coupled with efforts to enhance the resilience of networks against the impacts of climate change support expectations of predictable growth in earnings well into the future.

Our gas utility investments operate within regulatory constructs that protect their earnings against movements in volatile natural gas prices. In many instances, these businesses also benefit from weather normalisation clauses and revenue decoupling mechanisms that moderate the sensitivity of earnings to changes in customer consumption. As a consequence of this favourable treatment, the gas utilities in the strategy delivered robust financial results during 2020, notwithstanding the impact of covid-19 lockdowns on commercial and industrial demand.

The significant investment required to replace ageing cast iron, bare steel and vintage plastic pipe within gas distribution networks supports attractive earnings growth rates for our gas utilities. We expect the space heating loads that dominate demand for gas to prove resilient to electrification in the regions where we invest, reflecting the superior economics and technical properties of gas-fired heating relative to electric heat pumps.

The communications infrastructure assets in the portfolio generate highly defensive earnings streams. Leases over tower assets are typically struck with an initial term of five to ten years, provide for multiple renewal terms, and limit the termination rights of tenants. Moreover, lease agreements ordinarily embed rent escalation clauses, with rents typically escalating at a rate of about 3% p.a. in the US and at prevailing inflation rates in international markets.

With mobile data consumption expected to grow at rates in excess of 25% p.a. in key international markets over the next five years,[5] the communication infrastructure companies in the portfolio are poised to benefit from strong tenancy growth as wireless carriers add cell sites to deliver adequate network coverage. Having regard to the operating leverage inherent in the tower companies' business models, this revenue growth is expected to yield outsized growth in earnings and cash flow.

The toll road investments in the strategy are among the most structurally advantaged infrastructure assets in the world. Congestion on alternative routes implies that these assets face limited competition and capture a disproportionate share of incremental growth in traffic. Moreover, concession agreements typically provide for tolls to escalate at CPI or fixed nominal rates above CPI, preserving the real value of cash flows in an inflationary environment. While lockdowns in response to the health crisis continue to intermittently disrupt volumes, the rapid recovery in volumes observed when restrictions eased in various markets during 2020 demonstrates the robust underlying demand for the efficient transportation that these essential assets provide. The rollout of vaccines carries the promise of a more sustained return to normal conditions.

The global health crisis continues to weigh heavily on the results of our airport investments. For the month of April (the most recently available data), the International Air Transportation Association (IATA) reported that global passenger demand remained about 65% below its 2019 level, with international demand operating at approximately 13% of its pre-pandemic level.[6] Encouraged by the efficacy of vaccines, IATA's most recent projections call for world aviation activity to exceed 2019 levels by 5% in 2023, while guidance from major airports suggests a recovery to 2019 passenger volumes between 2023 and 2027. We continue to diligently monitor the financial position of our airport investments and remain comfortable that they possess sufficient liquidity to operate until passenger volumes recover.

The energy infrastructure companies in the strategy generate earnings by storing and transporting crude oil, natural gas and chemicals in their network of storage terminals and pipelines. The selective group of storage and pipeline assets that meet our strict definition of infrastructure derive the bulk of their earnings under long-term take-or-pay arrangements or from assets that are subject to economic regulation. Critically, these arrangements immunise earnings against the movements in commodity prices that erode the reliability of cash flows from most oil and gas pipelines. Moreover, while our energy infrastructure investments often bear some volume risk on their regulated assets, the advantaged producing regions and demand centres that these pipelines and storage assets serve have historically supported consistently high levels of utilisation.

While the transition to a global economy that is less reliant on fossil fuels may challenge energy infrastructure companies in the long term, we expect their reliable earnings to be fundamentally undisturbed for at least the next 15 years. While most major automotive companies have signalled their intent to discontinue the sale of internal combustion engine passenger vehicles between 2030 and 2035, the existing fleet will support demand for crude oil well beyond this period. Indeed, Bloomberg New Energy Finance forecasts[7] that there will still be more than 900 million fossil-fuel vehicles on the road in 2040, representing more

2 International Energy Agency, Net Zero by 2050: A Roadmap for the Global Energy Sector, May 2021.
3 International Energy Agency, Net Zero by 2050: A Roadmap for the Global Energy Sector, May 2021.
4 Princeton University, Net-Zero America: Potential Pathways, Infrastructure, and Impacts, December 2020.
5 Ericsson Mobility Report, November 2020.
6 International Air Transportation Association, Air Passenger Market Analysis, April 2021.
7 BloombergNEF, Electric Vehicle Outlook 2021, June 2020.

than half of the global fleet. We expect continued demand from power generation and space heating to lend similar resilience to natural gas transportation assets.

Having regard to the advantaged characteristics and favourable prospects of the companies in the portfolio, we remain confident that the strategy will continue to meet its objectives of delivering attractive risk-adjusted investment returns over the long term and protecting capital in adverse markets.

Gerald Stack

USD Performance as at 30 June 2021 [8]

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
MFG Global Core Infrastructure Composite (Gross)	16.3	9.4	7.5	7.7	-	10.5
MFG Global Core Infrastructure Composite (Net)	15.7	8.8	6.8	7.0	-	9.8

Rolling 3-year returns (measured monthly) [9]

Against Global Infrastructure Benchmark	Last 12 months	Last 36 months	Last 60 months	Since inception (79 months)
Average excess return (% p.a.) (Gross)	5.2	3.6	4.0	4.0
Outperformance consistency (Gross)	100%	92%	95%	96%
Average excess return (% p.a.) (Net)	4.5	2.9	3.2	3.3
Outperformance consistency (Net)	100%	86%	92%	94%

Capital Preservation Measures [10]

Adverse Markets	Last 36 months	Last 60 months	Since inception
No. of observations	10	14	33
Outperformance consistency (Gross)	80%	71%	70%
Down Market Capture Ratio	0.5	0.5	0.4

1 Portfolio positioning is based on a representative portfolio for the strategy. Sectors are internally defined and Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.

8 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. Inception date is 18 January 2012 (inclusive). 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. Refer to the GIPS Disclosure section below for further information.

9 Rolling 3-year returns are calculated based on the Global Core Infrastructure Composite in USD, rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with the outperformance consistency indicating the percentage of positive excess returns. Inception date is 18 January 2012 (inclusive). 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. The Global Infrastructure Benchmark is the S&P Global Infrastructure Net Total Return Index spliced with the UBS Developed Infrastructure and Utilities Net Total Return Index prior to 1 January 2015.

10 Capital preservation measures are based on the Global Core Infrastructure Composite before fees in USD. An Adverse Market is defined as a negative return for the MSCI World NTR Index (USD). Outperformance consistency indicates the percentage of positive excess returns. The Down Market Capture Ratio shows if a strategy has outperformed a benchmark during periods of market weakness, and if so, by how much. Inception date is 18 January 12 (inclusive).

IMPORTANT INFORMATION

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited trading as MFG Asset Management ('MFG Asset Management') and an investment fund or investment strategy managed by MFG Asset Management ('Strategy'). This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice. In making an investment decision, you must rely on your own examination of any offering documents relating to the Strategy.

The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. Past performance is not necessarily indicative of future results and no person guarantees the future performance of the Strategy, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of MFG Asset Management. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of an MFG Asset Management financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Strategy. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses.

No representation or warranty is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. This material may include data, research and other information from third party sources. MFG Asset Management makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. MFG Asset Management will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages.

No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorized or in which the person making such offer or solicitation is not qualified to do so. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of MFG Asset Management. Further information regarding any benchmark referred to herein can be found at www.mfgam.com.au. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners.

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.