MFG Global Core Infrastructure (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets[1]
Gerald Stack	18 January 2012	USD $6,687.3 million	USD $13,833.1 million

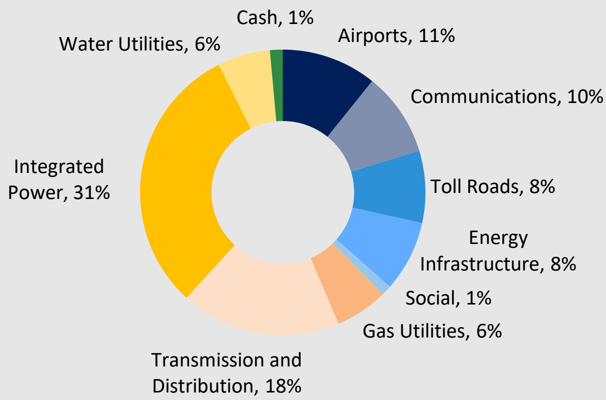
Objective	Approach
Capital preservation in adverse markets	Diversified rules-based portfolio applying our proprietary infrastructure classification
Pre-fee return of CPI plus 5%p.a. through the economic cycle	Highly defensive, inflation-linked exposure
	Benchmark unaware

Top 10 Holdings[2]	Sector[2]	%
Cellnex Telecom SA	Communications	3.2
National Grid PLC	Transmission and Distribution	3.0
Enbridge Inc	Energy Infrastructure	2.9
Transurban Group	Toll Roads	2.9
TC Energy Corporation	Energy Infrastructure	2.9
Vinci SA	Toll Roads	2.8
Fortis Inc	Transmission and Distribution	2.7
Aena SME SA	Airports	2.7
Snam SpA	Gas Utilities	2.6
Crown Castle International	Communications	2.3
	TOTAL:	28.0

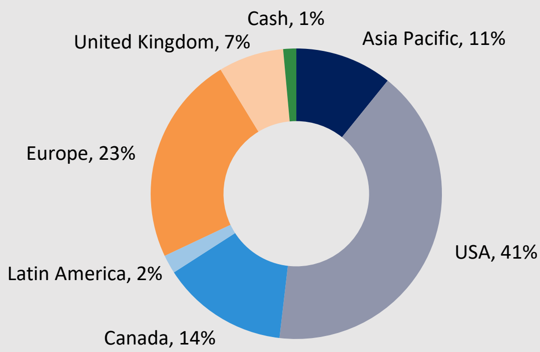
USD 5 Year Risk Measures[3]	Against MSCI World NTR Index (A$ Hedged)	Against Infrastructure Benchmark[4]
Upside Capture	0.5	0.9
Downside Capture	0.4	0.7
Beta	0.6	0.7
Correlation	0.7	0.9

3 Year rolling returns[5] (measured monthly)	Last 12 Months	Last 36 Months	Last 60 Months	Since Inception (76 Months)
Against the Infrastructure Benchmark[4]				
Average excess return (% p.a.) (Gross)	5.6	3.6	4.0	4.0
Average excess return (% p.a.) (Net)	4.9	2.9	3.3	3.2
Outperformance consistency (Gross)	100%	92%	95%	96%
Outperformance consistency (Net)	100%	86%	92%	93%

Sector Exposure[2]



Geographical Exposure[2]



Performance[6]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	2.3	21.8	8.5	7.4	8.1	10.3
Composite (Net)	2.2	21.2	7.9	6.8	7.4	9.6
Global Infrastructure Benchmark[4]	2.8	36.0	4.7	5.8	4.3	6.4
Excess (Gross)	-0.5	-14.2	3.8	1.6	3.8	3.9
MSCI World NTR Index	4.9	54.0	12.8	13.4	9.7	11.7

Annual Performance[6] (%)	CYTD	2020	2019	2018	2017	2016	2015	2014	2013	2012*
Composite (Gross)	2.3	-1.3	29.0	-6.1	21.2	7.2	-0.1	17.4	14.0	16.4
Composite (Net)	2.2	-1.8	28.2	-6.7	20.4	6.5	-0.8	16.6	13.2	15.6
Global Infrastructure Benchmark[4]	2.8	-6.5	25.8	-10.4	19.1	11.4	-12.2	14.1	14.4	7.0
Excess (Gross)	-0.5	5.2	3.2	4.3	2.1	-4.2	12.1	3.3	-0.4	9.4
MSCI World NTR Index	4.9	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	13.0

Strategy Commentary

In absolute terms, the strategy recorded a positive return over the quarter. The key driver of investment performance for the portfolio during the quarter was investors' expectations for inflation and interest rates.

In January and February, the strategy recorded a negative return, reflecting concerns from investors about potential increases in inflation and consequent increases in prevailing bond rates. The potential increases in inflation and bond rates particularly affected the share prices for regulated utilities, which make up more than 60% of the investment portfolio. Given the regulatory process, whereby increases in inflation and interest rates are typically passed through to consumers, the earnings of regulated utilities should be largely insulated from increases in inflation and bond rates. However, a rise in interest rates can lead to an increase in the discount rate applied by investors, leading to a reduction in value if there is no offsetting increase in cash flows.

In March, comments from central-bank officials, suggesting any increase in inflation was likely to be transient rather than structural, appeared to mollify the concerns of investors about inflation. The share price performance of regulated utilities did well during the month as a result, increasing in local currency terms by an average of approximately 11%. The upshot was the portfolio outperformed for the month.

Our view of regulated utilities during the quarter did not change. We assess utilities as offering reliable, predictable earnings and able to digest moderate inflation and interest rate increases through the regulatory process.

The stocks that contributed the most were the investments in Enbridge and TC Energy Corp of Canada and Vinci of France. Enbridge and TC Energy rose in line with the gain in oil prices over the quarter that made energy the best-performing sector, even though changes in the oil price had little immediate effect on their revenues. Furthermore, TC Energy rose even though President Joe Biden cancelled the Keystone XL oil pipeline project because this move was expected. Vinci, which manages toll roads, rose as the vaccine rollout boosted hopes that travel in Europe might soon return to normal.

Stocks that detracted the most included the investments in Red Eléctrica of Spain, Getlink of France and Transurban. Red Eléctrica, which manages Spain's grid, fell after the utility provided a disappointing investment outlook. Getlink, which operates the Eurotunnel, fell after its full-year result showed that pandemic-related restrictions had shaved 25% off revenue for fiscal 2020. Transurban slid as additional lockdowns were announced in regions in which it operates motorways.

In relative terms, the strategy underperformed the benchmark index over the quarter. This was due largely to oil prices jumping 20% over the three months. This boosted the oil-price-sensitive stocks that we exclude from our investable universe given the volatility in underlying earnings that comes from commodity-price sensitivity.

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

Stock story: Severn Trent

SEVERN TRENT

Severn Trent is one of the largest regulated water and sewerage companies in the UK, supplying 2.0 billion litres of drinking water and treating 3.2 billion litres of wastewater each day for its 4.6 million customers in the English Midlands and Wales.

The company operates within a transparent and prescriptive regulatory regime, where tariffs are set by the Office of Water Services Regulatory Authority for five-year periods. In accordance with precedent, the regulator fixes tariffs in a manner that allows a standard utility to recover its efficient costs of operations. At the same time, the regulator must ensure that water and sewerage companies can finance their activities; in particular, by securing reasonable returns on their invested capital.

At the review finalised in 2019, the regulator's assessment of a reasonable return on equity for water and sewerage companies was approximately 3.2% p.a., expressed in real (inflation-adjusted) terms – a meagre return, even accounting for the benign risk profile of a utility supplying the most basic of human needs.

Yet closer examination reveals that the regulatory regime can support returns well above what is allowed. For the five years to March 2020 (when the reasonable allowed return was 5.6% p.a.), Severn Trent achieved an average real return on regulatory equity of 8.5% p.a., 2.9% ahead of the regulator's 'baseline' allowance. This outsized return represents the reward for exceptional efficiency and operating performance.

Under the UK's model of incentive regulation, water and sewerage companies can generate excess returns in three ways. The first is by delivering their investment and service package at a lower total cost than the regulator's assessment of what it would cost a notional, efficient utility. The second way is by raising debt at levels below the notional allowance determined by the regulator. The third is by delivering service and environmental improvements under the regulator's 'outcome delivery incentive' framework.

Severn Trent generated excess returns on these parameters during the most recent five-year regulatory period, but it was on the final lever, outcome delivery incentives, that the company excelled.

Through targeted investments in its infrastructure, Severn Trent reduced external sewer flooding events by 48%, cut sewer flooding incidents occurring inside customer homes by 20%, and delivered a 21% reduction in the discharge of pollutants from its treatment plants, securing the company a net reward of 174 million pounds for the five years.[1] In

[1] Quoted on a pre-tax basis, in real 2012/13 terms, consistent with regulatory convention.

addition to providing a better experience for the Severn Trent customers, these achievements contributed to restoring the environment, improving the quality of rivers spanning 1,600 kilometres, and enhancing the biodiversity of 244 hectares of land.

With the first year of the current five-year regulatory control period having recently ended, Severn Trent appears poised to again reward investors by delivering improved customer service and a cleaner environment.

In its fiscal third-quarter trading update, the utility noted that it has reduced sewer blockages by 25%, cut pollution incidents by a further 15%, and delivered over 2,200 hectares of enhanced natural environment through its biodiversity program during the year to date. These results prompted management to inform investors to expect net rewards of at least 50 million pounds when the company reports its full-year 2020-2021 results in May.

Sources: Company filings.

Stock story: Enbridge

Enbridge is North America's leading energy infrastructure company. The Canadian-based company owns liquids pipelines, gas transmission assets, gas distribution networks and renewable generation assets. The company operates the largest liquids pipeline network in North America, transporting about 25% of crude oil produced in the region and serving more than 75% of the region's refineries. Enbridge operates the second-largest gas transmission pipeline network in North America, moving about 20% of the natural gas consumed in the US. In addition, the company operates the largest gas distribution system in North America and owns 1.8 Gigawatts of contracted renewable generation capacity.

About 98% of Enbridge's cash flows are secured by cost-of-service regulation or long-term take-or-pay contracts, which means that less than 2% of the company's cash flow is sensitive to movements in commodity prices. While Enbridge bears volume risk on its cost-of-service regulated pipelines, the company serves some of the most economically advantaged regions and refiners in the world – factors that have delivered consistently high levels of asset use.

Reflecting these helpful characteristics, Enbridge delivered distributable cash flow per share above the mid-point of management's pre-pandemic guidance in 2020, despite the disruption to global energy markets caused by the global health crisis and an oil price war between Saudi Arabia and Russia.

The company has introduced guidance for EBITDA growth of about 6% in 2021, supporting growth in distributable cash flow per share of around 4%. Over the next three years, management expects to deliver growth in distributable cash flow per share of 5% to 7% p.a., with 4% to 5% of annualised growth attributable to the company's C$17 billion secured capital program and a further 1% to 2% of growth generated through cost and productivity levers.

In the longer term, Enbridge will need to navigate the transition to a global economy that is less reliant on fossil fuels – a potentially significant challenge for a business that derived about 97% of group EBITDA from the delivery of crude oil and natural gas last year.

Yet concerns that decarbonisation will erode Enbridge's stable cash flows over the investment horizon appear premature. Virtually all reputable forecasting agencies expect global energy demand to increase to 2040. The International Energy Agency, for instance, forecasts a 7% increase in demand for oil and a 29% increase in demand for natural gas during this period. While much of this demand is likely to emanate from emerging Asian economies, IHS Markit, an energy markets consultancy, forecasts that Canadian oil-sands production will increase by nearly 40% over the next decade, which suggests that demand for Enbridge's liquids pipeline system will remain robust in the medium term.

Enbridge's natural gas transmission and distribution assets are expected to be similarly resilient. Natural gas remains the primary fuel for power generation in the regions served by Enbridge's gas transmission network, a paradigm that is unlikely to change in the medium term, given the long useful lives of electricity-generating fleets and the need to ensure security of supply in an energy market that embeds a growing share of intermittent generation.

The dominance of natural gas as a feedstock for space heating loads in Enbridge's Ontario gas distribution network appears even less likely to be challenged over the investment horizon. Heating a home with natural gas in Ontario is about 60% cheaper than heating with electric appliances, creating a compelling value proposition for households. Moreover, the region's brutal winters see peak demand for natural gas reach levels about three times the existing capacity of the electricity network, implying that full electrification of the system would carry a cost that is unlikely to be accepted by consumers or tolerated by policymakers seeking re-election.

Sources: Company filings.

[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% due to rounding.
[3] Risk measures are for the Global Core Infrastructure Composite before fees. The Global Equity Index is the MSCI World NTR Index.
[4] 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 NTR Index.
[5] Rolling 3-year returns are calculated and 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.
[6] 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.
* Returns are only for part year.

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 brands managed by subsidiaries 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.