MFGAM SELECT INFRASTRUCTURE STRATEGY

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The Select strategy seeks to provide efficient access to the stable returns offered by infrastructure and utility stocks, while protecting capital in adverse markets. Infrastructure and utility stocks that will help achieve these aims generally have strong underlying financial performance over the medium to long term, which is expected to translate into reliable, inflation-linked returns. The strategy typically holds between 20 and 40 stocks. The unhedged version of the strategy makes no attempt to protect returns from currency movements.

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 13.3% in US dollars for the 12 months. Stocks that contributed the most included the investments in Enbridge of Canada (+1.8% of the total portfolio return), CSX Corp of the US (+1.3%) and Crown Castle International of the US (+0.8%). 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 as well as benefiting from the increase in oil prices – even though changes in the oil price have little immediate effect on their revenues. CSX (and other North American railroad companies) gained after cargo levels held up better than expected amid pandemic-related restrictions and the benefits of increased efficiency measures that have persisted even as volume has recovered. Crown Castle gained on a robust fiscal 2020 result and as management offered encouraging volume growth forecasts for fiscal 2021 as a restricted world relied more on the internet.

Stocks that detracted the most included the investments in FirstEnergy Corp of the US (-0.6%), Royal Vopak of the Netherlands (-0.4%) and Aguas Andinas of Chile (-0.2%). FirstEnergy plunged after the US Attorney's Office of Ohio charged House Speaker Larry Householder and five others with bribery and money laundering tied to a bill that effectively was a US$1.5 billion bailout of a former subsidiary of FirstEnergy's nuclear plants in the US state. 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. 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.

POSITIONING AND OUTLOOK

At 30 June 2020, not long after the onset of the covid-19 pandemic, the investment portfolio comprised a defensive positioning of about 45% regulated utilities, 45% infrastructure and 10% in cash. As the crisis abated, we reduced our allocation to cash and reinvested in regulated utilities and infrastructure sectors. At the end of June 2021, the investment portfolio had a small amount in cash and the remainder approximately equally split between regulated utilities and infrastructure.

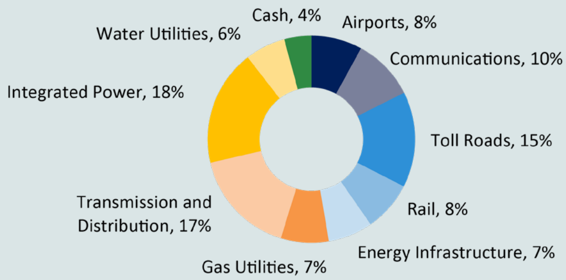
There are three key issues that are influencing our outlook:

- The return to 'normal' as covid-19 abates as a threat.
- The drive towards net-zero emissions.
- The outlook for inflation and interest rates.

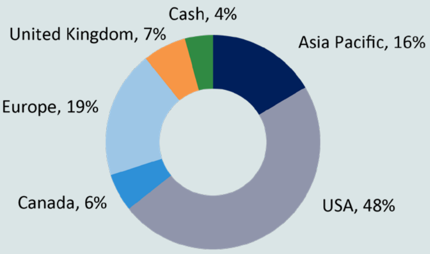
Top-10 holdings at 30 June 2021[1]

Security	Weight (%)
Transurban Group	7.0
Enbridge Inc	5.7
Sempra Energy	4.9
Atmos Energy Corporation	4.9
Crown Castle International	4.9
American Tower Corporation	4.8
Vinci SA	4.6
Eversource Energy	4.2
Xcel Energy Inc	4.1
Red Eléctrica Corporacion	3.9
Total	**49.0**

Sector Exposure[1]



Geographical Exposure[1]



The return to 'normal'

The businesses in regulated utility, communications infrastructure and rail sectors have proved resilient in the face of the economic upheaval forced by the pandemic.

- Regulated utilities typically generated financial performance in line with expectations. While the pandemic led to a reduction in the volume of electricity, gas or water transported by providers of essential services, these utilities were able to reduce their operating costs or work with their regulators to achieve financial performance in line with their expectations prior to the pandemic.
- Communications infrastructure businesses provide the infrastructure that supports the broadcasting and transmission of voice, video and data across communities. These businesses have benefited over the past decade from the explosion in the amount of data consumed through mobile, smart televisions and computer systems and were largely immune to the economic damage of lockdowns. We consider the outlook for continued strong growth in the volume of data broadcast across communications networks amid the transition to 5G networks well positions communications infrastructure companies in the coming decade.
- In the initial stages of the pandemic, rail companies in North America experienced sharp declines in freight volumes. Notwithstanding this deterioration in activity, margins proved more resilient than expected and an acceleration in the implementation of productivity measures delivered leaner cost structures. Freight volumes rebounded in the second half of 2020, and in many instances they approached pre-pandemic levels by year end. The recovery in volumes revealed further lasting improvements in efficiency. Our outlook remains bright as we expect freight volumes to reflect a growing US economy and rail companies to become even more efficient.

The shutdown of aviation by governments in response to the pandemic crushed passenger numbers – the International Air Transport Association (IATA) estimates passenger numbers plunged 94% in April 2020. Such declines led to sharp share price declines for airport stocks in the first half of 2020. News of successful vaccine trials in November 2020 triggered a significant bounce in airport stocks. Notwithstanding higher share prices, the operating performance of airports remains depressed relative to pre-covid-19 levels and will take some time to recover. IATA estimates, for example, that global aviation passenger numbers in April this year were down by more than 65% compared with April 2019. As vaccines are rolled out, we expect the airports to experience significant growth in passenger numbers. IATA predicts a recovery to 2019 passenger levels by 2023.

Similar to airports, traffic on toll roads plummeted at the start of the pandemic as governments restricted freedom of movement and people opted to stay home. Toll roads have generally experienced a rebound of traffic from 2020 lows but subsequent waves of the pandemic have typically led to periodic reductions in traffic. However, where health outcomes have improved and government restrictions on movement have eased, strong improvements in traffic levels have occurred. Toll roads offer an essential service to communities and we are confident that, as the vaccine rollouts progress and society reopens, traffic levels will recover.

The drive towards net-zero emissions

Regulated electricity utilities are major beneficiaries of the energy transition already underway. Communities around the world are embracing the challenge to reduce carbon emissions to net zero as a key plank in limiting global warming to 1.5°C. The commonly agreed path to achieve net zero includes the replacement of fossil-fuel-based energy sources with renewable energy sources combined with a significant investment in the electricity grid to enable increased electrification of the economy. Increased renewables and increased electrification are key steps to reducing carbon emissions and both present meaningful opportunities for regulated utilities to expand their earnings. We expect that the transition to net zero is likely to underwrite decades of earnings growth for electricity utilities.

The outlook for inflation and interest rates

There has been much commentary over the past year about the likelihood of faster inflation and higher interest rates. Reports have shown evidence of an acceleration in inflation but we expect higher inflation to be a temporary phenomenon. Even so, we expect interest rates to increase somewhat from current levels. Increasing interest rates represent a challenge for infrastructure, as it does for all investment classes.

There are two key areas we focus on when considering inflation and interest rates:

- **The impact on the businesses in which we invest**. We remain confident that the businesses that meet our investment-grade infrastructure criteria are well placed to meet our investment expectations over the medium term even through a period of rising inflation and interest rates. The businesses that meet our criteria provide essential services and face minimal competition and as a result are often regulated or have long-term contracted revenues that allow for inflation. When inflation or interest-rate conditions become challenging, we consider that regulation or long-term contracts protect these businesses and enable them to earn a fair return. In addition, many infrastructure and utilities businesses have increased the duration of their debt over recent years, essentially locking in today's low interest rates for long periods, which makes them less sensitive to movements in interest rates. We are confident that any shifts in inflation and interest rates will fail to hamper the financial performance of the companies in the portfolio for the foreseeable future.
- **Impact on valuations and on debt and equity markets**. An increase in interest rates can be expected to lead to a higher cost of debt, and an increase in the rate at which investors value future earnings. (The higher this 'discount rate', the less investors are willing to pay for future income streams.) Our forecasts and valuations take these factors into account. However, the history of financial markets leads us to expect increasing uncertainty if rates rise or look like rising. Stocks that are regarded as 'defensive' are often shunned when interest rates rise as investors prefer higher-growth sectors. However, it is our experience that provided businesses have solid fundamentals, their stock prices over the longer term will reflect their underlying earnings.

We believe that infrastructure assets, with their reliable earnings that are protected to a degree from inflation, are an attractive long-term investment proposition. The predictable nature of their earnings compared with those offered by other asset classes means that infrastructure assets can offer diversification benefits. In uncertain times, the reliable financial performance of infrastructure stocks can make them particularly attractive. An investment in listed infrastructure can reward patient investors and 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.

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USD Performance as at 30 June 2021 [2]

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.)
MFG Global Select Infrastructure Composite (Gross)	**13.3**	**6.5**	**7.2**	**7.2**	-	**8.5**
MFG Global Select Infrastructure Composite (Net)	**12.4**	**5.7**	**6.3**	**6.3**	-	**7.6**

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

Against Global Infrastructure Benchmark	Last 12 months	Last 36 months	Last 60 months	Since inception (63 months)
Average excess return (% p.a.) (Gross)	**3.4**	**3.7**	**4.1**	**4.2**
Outperformance consistency (Gross)	**100%**	**100%**	**100%**	**100%**
Average excess return (% p.a.) (Net)	**2.6**	**2.8**	**3.3**	**3.4**
Outperformance consistency (Net)	**100%**	**97%**	**98%**	**98%**

Capital Preservation Measures [4]

Adverse Markets	Last 36 months	Last 60 months	Since inception
No. of observations	**10**	**14**	**30**
Outperformance consistency (Gross)	**70%**	**64%**	**63%**
Down Market Capture Ratio	**0.6**	**0.6**	**0.5**

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.

2 Returns are for the Global Select Infrastructure Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Inception date is 2 May 2013 (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.

3 Rolling 3-year returns are calculated based on the Global Select 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 2 May 2013 (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.

4 Capital preservation measures are based on the Global Select 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 2 May 2013 (inclusive).

IMPORTANT INFORMATION

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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 Select Infrastructure composite is a concentrated global strategy investing in strictly defined or "pure" infrastructure companies, (typically 20-40). The filtered investment universe is comprised of stocks that 1. generate reliable income streams 2. benefit from inflation protection and 3. 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 May 2013.

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.