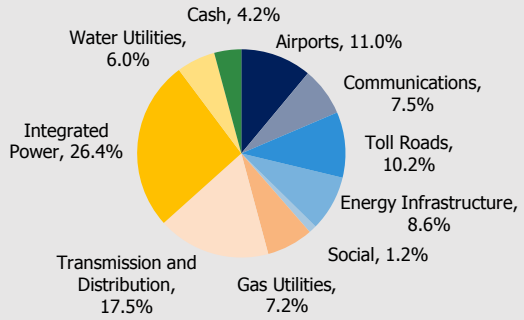
Magellan Core Infrastructure (AUD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets[1]
Gerald Stack	17 December 2009	AUD $4,612.8 million	AUD $8,280.9 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	Benchmark unaware
	Highly defensive, inflation-linked exposure

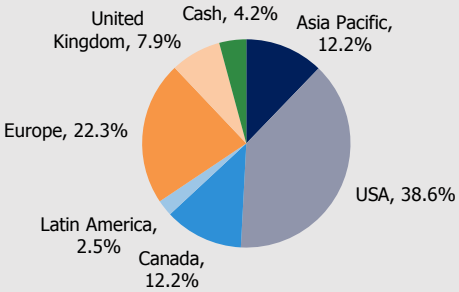
Top 10 Holdings[2]	Sector	%
Enbridge Inc	Energy Infrastructure	3.2
TransCanada Corp	Energy Infrastructure	3.2
Fortis Inc	Transmission and Distribution	3.0
Aena SA	Airports	3.0
Transurban Group	Toll Roads	2.9
Abertis Infraestructuras	Toll Roads	2.8
National Grid PLC	Transmission and Distribution	2.7
Sydney Airports	Airports	2.5
Power Assets Holdings	Integrated Power	2.4
Atlantia SpA	Toll Roads	2.4
	TOTAL:	28.1

Sector Exposure[2]



AUD 5 Year Risk Measures[4]	Against Benchmark[5]	Against Global Equities
Upside Capture	1.1	0.7
Downside Capture	0.8	-0.1
Beta	0.9	0.4
Correlation	0.8	0.4

Geographical Exposure[2]



Cumulative Performance[3]	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	Since Inception (p.a.)
Composite (Gross)	**4.2**	**7.7**	**13.9**	**16.5**	**17.9**	**16.5**
Composite (Net)	4.0	7.0	13.1	15.7	17.0	15.7
Global Infrastructure Benchmark	3.7	12.4	8.3	12.6	12.1	10.5
Excess (Gross)	0.5	-4.7	5.6	3.9	5.8	6.0
MSCI World NTR Index Hedged to AUD	3.0	20.4	9.6	15.3	14.4	12.6

Annual Performance[3]	CYTD	2016	2015	2014	2013	2012	2011	2010	2009*
Composite (Gross)	**11.8**	**10.6**	**7.9**	**28.0**	**16.7**	**16.3**	**15.6**	**15.9**	**1.9**
Composite (Net)	11.4	9.8	7.2	27.1	15.8	15.5	14.8	15.1	1.9
Global Infrastructure Benchmark	10.9	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	0.9
Excess (Gross)	0.9	-3.5	13.3	5.1	-1.8	7.2	10.9	10.2	1.0
MSCI World NTR Index Hedged to AUD	8.9	10.4	3.8	12.3	31.8	18.8	-2.3	12.6	1.1

1 Comprised of all Infrastructure Strategies.
2 The data is based on a representative portfolio for the strategy. Refer to the end of the document for further information. Sectors are internally defined. Geographical exposure is by domicile of listing.
3 Returns are for the Core Infrastructure Hedged to AUD Composite and denoted in AUD. Performance would vary if returns were denominated in a currency other than AUD. 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.
4 Risk measures are for the Core Infrastructure Hedged to AUD Composite before fees. The Global Equity Index is the MSCI World NTR Index (hedged in AUD).
5 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 (hedged to AUD) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (hedged to AUD). Note: the UBS Developed Infrastructure and Utilities NTR Index (hedged to AUD) ceased to be published from 31 March 2015, replaced on 1 January 2015 with the S&P Global Infrastructure Index NTR (hedged to AUD).
* Returns are only for part year.

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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 (AUD Hedged) and from 1 January 2015 the benchmark is S&P Global Infrastructure Net Total Return Index (AUD Hedged). The benchmark changed because UBS discontinued their index series.

The UBS Developed Infrastructure & Utilities Index Net Total Return (AUD Hedged) 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 index is hedged to Australian dollars.

The S&P Global Infrastructure Net Total Return Index (AUD Hedged) 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. The index is hedged to Australian dollars.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

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For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management.

The Global Core Infrastructure Hedged in AUD 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 is hedged to Australian dollars with Forward contracts. The composite was created in December 2011.

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 list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing data@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.

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Market Commentary

Global infrastructure stocks outperformed rising global stocks in the June quarter after lower bond yields boosted the relative attractiveness of long-duration assets such as infrastructure stocks and the defeat of the French presidential candidate who had promised to withdraw France from the EU and nationalise toll roads boosted French utilities and infrastructure stocks. Utilities were the fourth best-performing of the 10 industry classifications within the MSCI World Index over the quarter.

In the US, government 10-year bond yields, the benchmark for global credit markets, fell 8 basis points to 2.31% over the quarter as reports showed the US economy was subdued as first-quarter GDP only grew at an annualised rate of 1.4%. The Federal Reserve looked through this to raise official interest rates by 25 basis points, and released statements reiterating its belief that inflation and economic growth will pick up.

In Europe, investors were reassured when the pro-EU Emmanuel Macron defeated the anti-EU populist Marine Le Pen in the second and final round of the French presidential election. French utilities surged 14% in May on Le Pen's defeat, a rally that prompted a more widespread rise in European infrastructure stocks. Offsetting this, UK utility stocks fell in June after the Conservatives were only able to form a minority government that is expected to be short-lived. Investors were concerned that a Labour government might nationalise key essential services and reduce the allowed profits of utilities.

Global stocks set record highs in the June quarter after US companies posted better-than-expected earnings for the first quarter, readings showed the US economy was expanding sufficiently and the Federal Reserve reconfirmed that monetary policy would only be tightened gradually.

Strategy Commentary

The portfolio recorded a positive return in the June quarter.

At an industry level, investments in communications and toll roads contributed the most, while investments in water utilities detracted.

At a stock level, the best-performers included investments in Aeroports de Paris, Fraport and Aena. Aeroports de Paris surged 23% after the company confirmed fiscal 2017 profit guidance and lifted its forecast for traffic growth from about 2% to 3%. As well, the company enjoyed higher traffic at its airports and benefited from the French election result as Macron has promised to sell government stakes in major French assets, potentially including the state's 50.6% holding in the company. Fraport rose 18% on talk traffic at the airport will increase. Aena added 17% after the 50%-government-owned airport operator announced first-quarter earnings that beat the most optimistic of analyst estimates.

The worst-performing stocks included United Utilities and Severn Trent of the UK. United Utilities shed 10% and Severn Trent 6.7% amid the general slump in UK utilities following the UK elections.

During the quarter, one security was removed from the portfolio and one was added. The Australian transmission and distribution company, DUET, was removed following its acquisition by a Hong Kong-based consortium. US transmission and distribution company InfraREIT was added during the quarter. InfraREIT primarily operates electricity transmission assets in Texas. At the end of the quarter we were in the process of removing two securities from the portfolio that we believed no longer meet the 75% infrastructure earnings test.

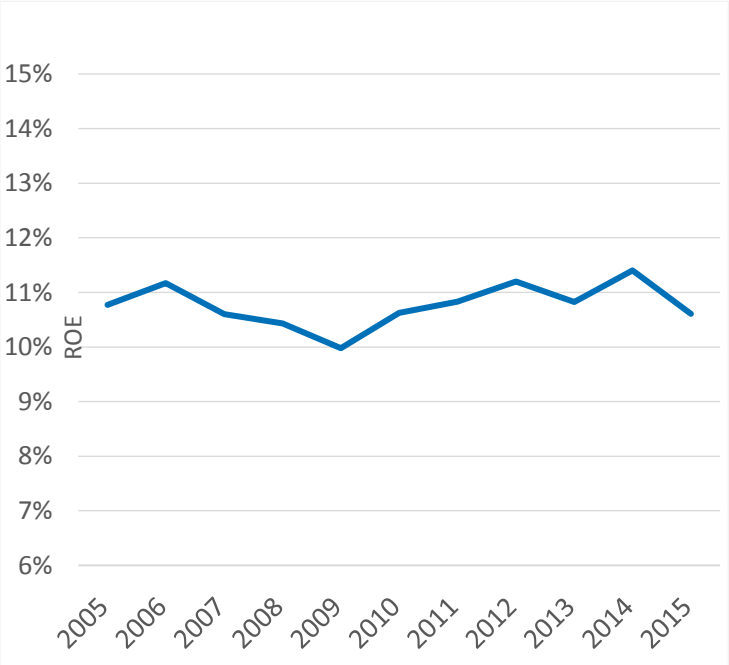
Movements in stocks are in local currency.

Topic in Focus: Why invest in utilities?

Regulated utilities are known for their ability to generate moderate but predictable returns regardless of market conditions. For this reason, we often describe utility stocks as the 'lead in the keel' of our infrastructure portfolios. They allow us to navigate shifts in global equity markets with confidence as we seek to deliver annualised returns of 5% in excess of inflation through a market cycle.

Consider the exhibit below, where allowed returns for a sample of regulated US utilities within our investment universe barely fluctuated as interest rates declined when economic growth slowed. Over time, the stable and reliable earnings derived from transmission and distribution assets should deliver income and capital growth for investors.

Return on equity for selected US-based regulated utilities



Source: Company accounts.

Utility group includes Alliant Energy, Atmos Energy, Consolidated Edison, ITC, Eversource Energy, Southwest Gas, Southern Company, Westar Energy, WGL, Wisconsin Energy & Xcel

Utilities defined

Utilities are companies that produce and deliver basic essential services such as electricity, natural gas and water. These services are delivered by a network of assets that require the use of public rights-of-way. Crucially, these networks exhibit attributes of a natural monopoly: the extensive investments required to construct the assets make it difficult for another company to compete profitably against the incumbent. Due to this natural monopoly, governments have generally operated utilities but in recent decades they have handed the responsibility to private operators under licence.

To gain this licence, a utility agrees to submit to regulations that govern the rates it can charge customers. In return, the regulator commits to set prices in a manner that allows the utility to earn a rate of return commensurate with the risk borne and the costs incurred. While returns set by regulators can be modest compared with other sectors, utilities are often assured of a minimum return regardless of how the economy is performing because demand for their services is constant. Thus, utility stocks can provide stable earnings and cash flows.

Key earnings drivers

Under the regulatory compact, the utility submits to rate regulation in exchange for exclusive rights to operate within a market. Regulation allows the utility to recover its costs, as well as earn a reasonable rate of return. For its part, the regulator defines what costs can be recovered and what is a fair rate of return, which help determine the prices a utility can charge.

Determining rates

The process by which utility charges, or rates, are determined differs across countries and jurisdictions. At its core, a utility's rates are a function of its asset (or rate) base and the authorised rate of return.

One of the more common approaches used (particularly in North America) is 'cost of service'. This approach requires the regulator to determine the revenue requirement, which reflects the amount a utility must collect from its customers to recover its costs and earn a fair and reasonable return. To put it another way:

revenue requirement = operating expenses + (rate base multiplied by the rate of return).

The utility tends to concern itself with its 'rate base', and the rate of return, because these factors typically exert the greatest influence on the company's long-term earnings. By contrast, operating expenses assume less importance as a driver of returns, as these costs are typically passed onto consumers (i.e. utilities do not earn a return on expenses).

As noted, the approach to determining rates can differ across markets. In the UK, regulators use performance-based ratemaking to determine customer charges. While similar to cost-of-service ratemaking in some ways, performance-based ratemaking allows the utility to increase earnings by reducing or limiting costs (instead of increasing rates). The regulator, for example, may allow a utility to adjust its rates based on pre-determined productivity measures or other factors.

The exhibit below provides a comparison of cost-of-service and performance-based rates.

Cost of service	Performance based
Rate base x rate of return + operating expenses = revenue requirement / sales = rate	Rate in year 1 + inflation +/- productivity +/- other = rate in year 2

Incentive ratemaking is another regulatory approach that uses mechanisms to reward utilities for achieving certain operating targets (as opposed to performance-based cost metrics). Incentives may range from higher allowed returns for meeting energy-efficiency goals to return-on-equity adders for making specific investments. Conversely, (negative) incentives are tools used to penalise utilities for failing to meet certain operating standards.

The rate base

The rate base represents all capital employed by the utility to serve its customers. These might include buildings, power plants, poles, wires, transformers and pipelines.

Over time, the rate base declines as the capital base depreciates. Equally, the asset base grows whenever the utility invests in its capital base. For this reason, investors typically view most (regulated) capital investments as positive for earnings growth.

In countries such as Australia, Chile, New Zealand and the UK, the regulated asset base is the comparable reference used by regulators. It is, however, a term that carries no legislative backing. The regulated asset base, unlike the US 'rate-base' model, allows the regulator to amend contracts via an ordered review, or the revision or renegotiation of licences.

Rate of return

A utility's rate of return is an aggregation of costs for the different sources of funding (i.e. weighted-average cost of capital based on the utility's capital structure).

Hypothetical rate of return calculation

	% of capital structure	Cost of capital for element	% of capital structure
Common equity	45%	10%	4.50%
+ preferred equity	5%	8%	0.40%
+ long-term debt	45%	7%	3.15%
+ short-term debt	5%	5%	0.25%
= rate of return	**100%**		**8.30%**

As each source of funding has different costs, the mix can have a sizeable effect on the overall weighted rate of return. Moreover, a higher share of equity will usually translate into higher rates for consumers due to the higher cost of equity. This often requires regulators to establish limits on a utility's capital structure.

US utilities have a capital structure that ranges somewhere between 40% and 60% equity, although this can be higher in other parts of the world. US utilities often only concern themselves with their return on equity as the cost of debt is passed through to the customer. In jurisdictions such as the UK, however, regulation considers the entire return on capital.

Those unfamiliar with utilities might find any company with debt comprising more than 50% of the capital structure surprising as other industries typically carry less leverage. But the ability to have a more highly levered balance sheet is a function of earnings predictability, which is borne out of regulation.