Strategy Update: 30 September 2019

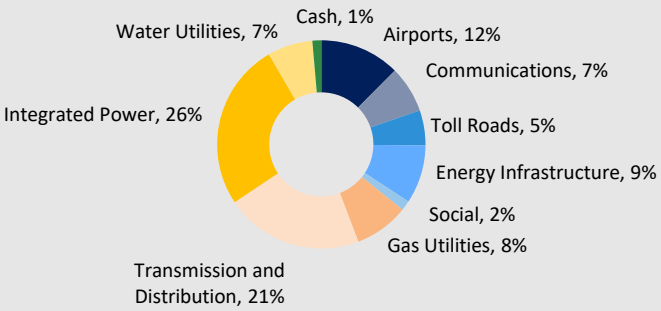
Magellan Core Infrastructure (AUD Hedged)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets [1]
Gerald Stack	17 December 2009	AUD $8,028.7 million	AUD $16,544.4 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

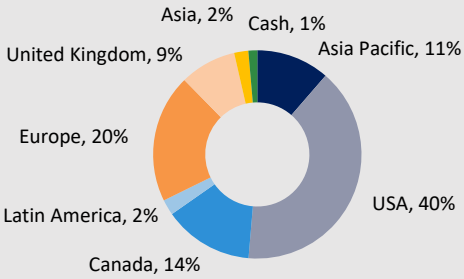
Top 10 Holdings[2]	Sector[2]	%
Enbridge Inc	Energy Infrastructure	3.1
National Grid PLC	Transmission and Distribution	3.0
TC Energy Corp	Energy Infrastructure	3.0
Aena SME SA	Airports	3.0
Fortis Inc	Transmission and Distribution	3.0
Transurban Group	Toll Roads	2.9
Sydney Airports	Airports	2.8
Emera Inc	Transmission and Distribution	2.5
Snam Rete Gas SpA	Gas Utilities	2.4
Cellnex Telecom SA	Communications	2.2
	TOTAL:	27.9

Sector Exposure[2]



AUD 5 Year Risk Measures[4]	Against Global Equities	Against Infrastructure Benchmark[5]
Upside Capture	0.6	1.1
Downside Capture	-0.2	0.8
Beta	0.3	0.9
Correlation	0.3	0.8

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)	5.3	23.9	11.4	13.2	14.6	15.2
Composite (Net)	5.1	23.1	10.6	12.4	13.8	14.4
Global Infrastructure Benchmark	2.3	16.7	8.7	8.4	11.0	9.7
Excess (Gross)	3.0	7.2	2.7	4.8	3.6	5.5
MSCI World NTR Index Hedged to AUD	1.4	2.2	11.3	9.3	12.7	11.6

Annual Performance[3]	CYTD (%)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009*
Composite (Gross)	24.8	-1.7	15.4	10.6	7.9	28.0	16.7	16.3	15.6	15.9	1.9
Composite (Net)	24.2	-2.4	14.6	9.8	7.2	27.1	15.8	15.5	14.8	15.1	1.9
Global Infrastructure Benchmark	21.8	-6.7	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	0.9
Excess (Gross)	3.0	5.0	1.0	-3.5	13.3	5.1	-1.8	7.2	10.9	10.2	1.0
MSCI World NTR Index Hedged to AUD	18.1	-7.4	19.8	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 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 Returns are for the Global 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 Global 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 May 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

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 ®)

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The Global Core Infrastructure Hedged in AUD 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 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 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.

AUD is the currency used to calculate performance.

Strategy Commentary

The portfolio recorded a positive return for the quarter. Stocks that added the most on a contributions basis included the investments in WEC Energy of the US, The Southern Co of the US and Fortis of Canada. WEC Energy added 15% after the electricity and gas utility based in the Midwest boosted its forecast for full-year earnings. The Southern Co added 13% after the electricity utility's second-quarter earnings per share and revenue beat forecasts. Fortis added 9.2% after the Canadian gas and electricity distributor boosted capital expenditure estimates for this fiscal year from C$3.7 billion to C$4.3billion.

Stocks that detracted the most on a contributions basis included the investments in Aena of Spain, Auckland International Airport and Power Asset Holdings of Hong Kong. Aena fell 3.6% after the world's biggest airport operator unexpectedly said it expected tariffs charged to airlines to drop, rather than stay flat, in the current financial year. Auckland International Airport lost 7.1% as analysts reduced profit growth for fiscal 2020 due to lower seat-capacity growth and reduced aeronautical pricing. Power Assets fell 5.0% as Hong Kong stocks slumped after the riots that are directed at Chinese rule turned violent.

Stock story: WEC Energy

A US electricity and gas utility with a record of 'delivering' outperformance.

WEC Energy is a US holding company that, via seven wholly owned regulated utilities, supplies electricity and gas to 4.5 million customers in four Midwest states. The Wisconsin-based company that earned net income of US$1.1 billion in fiscal 2018 makes a rare boast; that it is "the only utility to beat guidance every year for more than a decade".

There are two ways companies beat earnings forecasts. The easy way is to undersell expectations. The hard way is to outperform honest assessments. WEC Energy, which was formed in 2015 when Wisconsin Energy bought Integrys Energy for US$9.1 billion, has outperformed the hard way every year since 2004.

The explanation for WEC Energy's success is linked to the regulatory environment under which utilities operate in the US. The heart of the model is that utilities are monopolies with exclusive rights to provide their services in a demarcated area. In exchange, they have their return on capital spending limited, a means by which regulators can ensure that prices are affordable for the utility's customers. The restrictions on price mean that the best way for a utility to boost earnings is to increase its regulated asset base (commonly referred to as its rate base) through approved capital spending.

WEC Energy's advantages are threefold. The first is that the company benefits from earning about 70% of its revenue in its business-friendly home state where regulators think that utilities deserve proper compensation for providing essential services. WEC Energy is thus allowed to earn equity returns of about 10% on US$19.8 billion worth of utility assets usually over a set period.

The second is that WEC Energy is expanding the amount of capital on which it can earn a regulated return by investing US$14 billion over the next five years. This spending has three streams. One is replacing antiquated gas pipelines and other old gas infrastructure around its Chicago service area. Another is boosting power output to meet the growing demands of its expanding home region of the US. Milwaukee, the largest city in Wisconsin, has established itself as a tech hub. The decision in 2017 by Taiwan's Foxconn to establish a US$10 billion factory in Wisconsin to build LCD panel screens added more to the optimism and growth of the state. The other capital-spending stream is an expansion into renewable energy that, in a state seeking zero emissions by 2050, is afforded unofficial regulated status in terms of forming part of the capital base on which rates are set. The company, which is in a 'renewable rich' (windy) part of the US, is turning away from coal towards natural-gas and wind generation.

WEC Energy's third advantage is that the company is well run. The company's largest utility, WE Energies, was recently named the most reliable utility in the US and the best in the Midwest for the seventh year running. Another WEC Energy

utility, Wisconsin Public Service, was named '2018 Most Trusted Utility Brand'. WEC Energy's Executive Chairman Gale Klappa, who has a reputation for finding 'win-win' solutions with regulators, was named '2019 Best CEO – Electricity and Natural Gas Industry' by *Business Worldwide* magazine.

WEC Energy, all up, forms a classic case of what infrastructure and utility assets can offer investors – namely, dependable earnings streams and capital growth.

To be sure, the company has some risks. Regulators in Minnesota and Illinois where WEC Energy eyes expansion might not prove as friendly as those in Wisconsin (though those in Illinois seem to be becoming more amenable). The company's coal assets could come under more stringent environmental controls though replacing these assets presents an opportunity for approved capital spending.

Whatever WEC Energy's challenges, the company's record of outperforming counts for something. Not only has WEC Energy beaten earnings expectations since 2004, it has raised its dividend over each of those 15 years too. While expectations are high for WEC Energy, the company has the potential to outperform for a while yet.

Rewarding shareholders

WEC Energy's beginnings trace to 1896 when the Milwaukee Electric Railway and Light Company was formed to operate trains in southeast Wisconsin. In time, the company sold surplus electricity to households and businesses. Six major acquisitions over the past 120 years and WEC Energy is now one of the largest electricity and natural gas utilities in the US and the largest in the Midwest.

The company reports across four segments: Wisconsin, Illinois, Other States, and Electric Transmission. The Wisconsin slice accounts for nearly 70% of total revenue and includes the company's three key electricity and natural gas utility operations; namely, Wisconsin Electric, Wisconsin Gas, and Wisconsin Public Service.

Wisconsin is home to about three million of WEC Energy's customers. Across Illinois, Michigan, Minnesota and Wisconsin, WEC Energy boasts 2.9 million natural gas customers and 1.6 million electricity customers. These customers are served across 70,100 miles (113,000 kilometres) of electric lines and 49,000 miles (79,000 kilometres) of gas distribution. The company owns 60% of American Transmission Company, an electricity transmission company, and has a non-regulated renewable energy business.

The alignment of WEC Energy with its shareholders and customers is shown by the company's earnings-sharing scheme. When returns exceed the company's regulated rate of return by up to 50 basis points, customers and shareholders share the upside equally. Over 50 basis points, and all the gains head to customers.

As for its shareholders, the company's dividend nearly tripled from 80 US cents a share in 2010 to US$2.21 in 2018. WEC Energy, which delivered an 8% compound annual growth rate from 2008 to 2018, has flagged that it can deliver 5% to 7% annual earnings-per-share growth in the coming five years. No one should be surprised if the company outdoes this ambitious target.

Sources: Company filings and website