Strategy Update: 31 March 2020

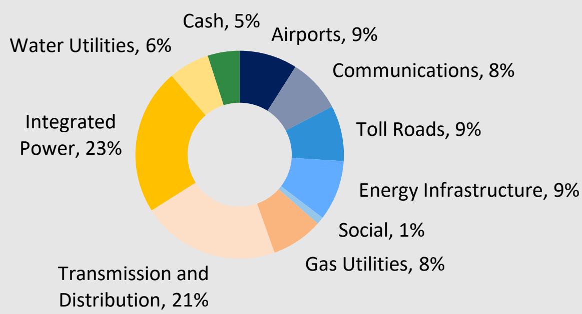
MFG Core Infrastructure (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets [1]
Gerald Stack	18 January 2012	USD $5,173.8 million	USD $9,599.0 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

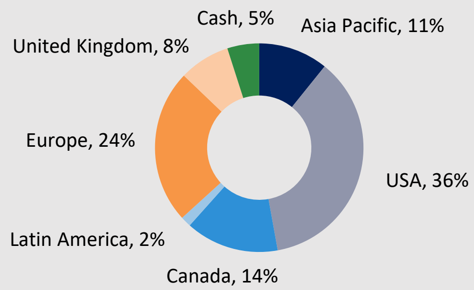
Top 10 Holdings[2]	Sector[2]	%
TC Energy Corp	Energy Infrastructure	3.4
Vinci SA	Toll Roads	3.3
Fortis Inc	Transmission and Distribution	3.3
Enbridge Inc	Energy Infrastructure	3.2
Transurban Group	Toll Roads	3.2
National Grid PLC	Transmission and Distribution	3.0
Snam Rete Gas SpA	Gas Utilities	2.9
Cellnex Telecom SA	Communications	2.9
Aena SME SA	Airports	2.4
Power Assets Holdings	Transmission and Distribution	2.4
	TOTAL:	30.0

Sector Exposure[2]



USD 5 Year Risk Measures[4]	Against Global Equities	Against Infrastructure Benchmark[5]
Upside Capture	0.6	1.1
Downside Capture	0.3	0.7
Beta	0.6	0.7
Correlation	0.7	0.9

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)	-17.1	-5.1	3.9	5.9	7.2	9.0
Composite (Net)	-17.2	-5.6	3.3	5.2	6.5	8.3
Global Infrastructure Benchmark	-29.3	-21.9	-4.2	-1.3	1.8	3.2
Excess (Gross)	12.2	16.8	8.1	7.2	5.4	5.8
MSCI World NTR Index	-21.1	-10.4	1.9	3.2	5.8	7.5

Annual Performance[3]	CYTD (%)	2019	2018	2017	2016	2015	2014	2013	2012*
Composite (Gross)	-17.1	29.0	-6.1	21.2	7.2	-0.1	17.4	14.0	16.4
Composite (Net)	-17.2	28.2	-6.7	20.4	6.5	-0.8	16.6	13.2	15.6
Global Infrastructure Benchmark	-29.3	25.8	-10.4	19.1	11.4	-12.2	14.1	14.4	7.0
Excess (Gross)	12.2	3.2	4.3	2.1	-4.2	12.1	3.3	-0.4	9.4
MSCI World NTR Index	-21.1	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	13.0

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 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.
4 Risk measures are for the Global Core Infrastructure Composite before fees. The Global Equity Index is the MSCI World NTR Index.
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 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 Index NTR.
* 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 portfolios 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.

Strategy Commentary

The strategy recorded a negative return for the March quarter when global stocks plunged after the novel coronavirus escaped from China and battered economic activity, corporate earnings and investor sentiment around the world.

Stocks that detracted the most included the investments in the airport operators Aena of Spain and ADP of France, and in Transurban, the toll-road operator of Australia. Aena, the world's largest airport operator, and ADP, which runs the airports of Paris, dived after the outbreak of the virus that causes the illness called covid-19 prompted governments to close borders and order their populations not to travel to control the pandemic. Transurban slumped on a view that likely recessions would curb traffic on its toll roads in Australia, Canada and the US.

The only two stocks to contribute in US dollars were Cellnex of Spain and SBA Communications of the US. Cellnex rose after investors approved of the tower owner's purchase in January of 3,000 tower sites in Portugal from a joint venture that includes Morgan Stanley among owners. SBA Communications gained after it reported a 26% increase in dividends for the fourth quarter and a federal court's approval for the T-Mobile-Sprint deal was seen as spurring demand for the company's communications equipment.

Stock Story: Eversource Energy

EVERSOURCE

In 2024, Greater Boston will lose a reliable but highly polluting source of power when the Mystic Generating Station closes. Step up the locally based Eversource Energy that, in partnership with the UK's National Grid, has submitted eight proposals that the pair say will deliver reliable, affordable and, above all, clean energy to the north-eastern state of Massachusetts where Boston lies.

A cleaner future is a common promise of Eversource that, through subsidiaries, earned US$8.9 billion in revenue in fiscal 2019 by delivering electricity and water in Connecticut, New Hampshire and Massachusetts and natural gas throughout Connecticut and Massachusetts.

The company that is the largest supplier of power in the New England region of the US has announced an ambitious goal to become carbon neutral by 2030, about two decades ahead of its peers. As proof of its intent, Eversource Energy achieved a 69% reduction in gas emissions in metric tonnes from 2014 to 2018 by reducing the emissions of its fleet and improving the efficiency of its plants.

What's interesting for investors is that Eversource's business case is built on a cleaner future. The plans of the company, which delivered a more-than-adequate 6% annual growth in earnings per share from 2012 to 2018, has two strands. To understand the first, it helps to revisit the regulation model that US utilities operate under. The core of the model is that utilities are given a monopoly right to provide their services in a defined territory but the return on their capital spending is limited to ensure that they provide affordable services to customers. The way, therefore, for a utility to increase gross earnings is to spend more on approved capital works.

Eversource Energy's main strategy to boosts its earnings-per-share growth to 5% to 7% a year is to spend US$14.2 billion over the five years to 2024 to replace gas and water pipes and upgrade electricity grids to support New England's goal for cleaner energy resources. Another part of this strand is that Eversource Energy intends to acquire small utilities where compelling opportunities arise, which will allow for more regulated returns on an expanded amount of capital spending. As an example of this intent, the company just paid US$1.1 billion to NiSource for the Massachusetts natural gas distribution assets of Columbia Gas.

The second strand of Eversource Energy's plan sits outside regulated returns but is promising nonetheless. The company is investing in higher-risk (albeit with 20-25 year power purchase agreements) offshore wind projects with an aim to push annual earnings growth beyond 7% a year after 2024. In what was the biggest venture by a US utility into offshore wind farms, Eversource Energy last year paid US$225 million to Ørsted, the Denmark-based company that is the world's largest offshore wind farmer, for a 50% stake in two projects planned off New England and an interest in a 650-square kilometre (257-square mile) development site in the nearby Atlantic Ocean.

Eversource Energy's two-pronged plan to boost returns appeals because the company, which has a record of overdelivering, offers what people look for when investing in utilities; namely, regular income with the promise of capital growth.

While Eversource Energy has a history of delivering superior total shareholder returns (a seven-year average recurring earnings-per-share and dividend growth of 6.1% and 7.2% to give the numbers), there are risks. Eversource Energy's businesses are complex, and things can go wrong. A decision to abandon plans for a transmission line that would have connected Canada to New England, for instance, nearly wiped out the company's profit in the second quarter of last year because it had to book a US$200 million charge for the failed project. The three large Eversource-Ørsted wind projects are only in planning permission stage and such big ventures often come with delays and risk. Eversource Energy is carrying debt of about US$12.6 billion though, in the midst of the virus-triggered ructions, Standard & Poor's in February reaffirmed the utility's debt rating at A- and said the outlook remained stable. Like other utilities, Eversource Energy was battered during the recent market slump. But the stock only declined 8.1% over the March quarter, much less than the S&P 500's plunge of 20%. Put that outperformance down to the confidence of investors that the clean-energy regulated business model of Eversource Energy will deliver in coming years.

Old assets

Like many US utilities, Eversource Energy has a complicated history that extends back to the 19th century, which is why so many of its assets need replacing. The company emerged from Northeast Utilities, which was formed in 1966 when three electricity utilities founded respectively in 1917, 1886 and 1878 merged. Northeast Utilities later absorbed a water utility that was established in 1859.

A significant milestone came in 2012 when Northeast Utilities and its four operating companies merged with NSTAR Electric & Gas. Another event of note is that the company renamed Eversource Energy in 2017 bought Aquarion Water Company, making Eversource Energy the only electricity company in the US to own a water utility.

In its present guise, Eversource Energy delivers electricity and natural gas and supplies water to four million customers via its six distinct utility companies. To do that, the company operates about 630,000 overhead and underground lines and more than 8,500 square kilometres (3,300 square miles) of natural gas distribution.

Eversource Energy's claims to good citizenship extend beyond its clean-energy claims. The company was named the No. 1 energy company in *Newsweek's* list of the US's Most Responsible Companies for 2020. It was recognised as one of the US's Most JUST Companies and the top utility by *Forbes* magazine and JUST Capital. Such awards can only help impress the officials scrutinising the company's clean-energy plans for Greater Boston once the polluting Mystic plant is shuttered.

Sources include company filings and website, Bloomberg and Hoover's, a Dun & Bradstreet Company.