Strategy Update: 30 September 2021

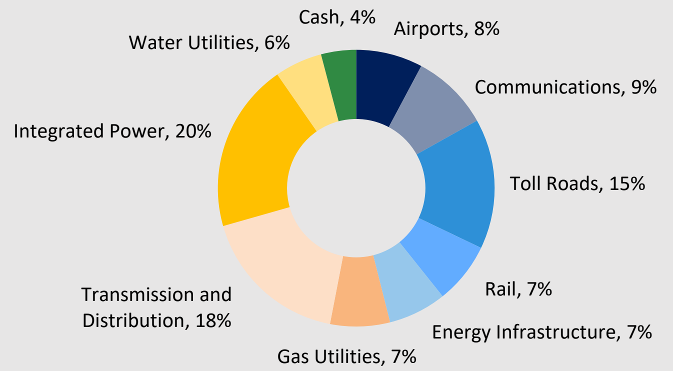
MFG Global Select Infrastructure (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets[1]
Gerald Stack	2 May 2013	USD $7,297.5 million	USD $14,202.3 million

Objective	Approach
Capital preservation in adverse markets	Concentrated 20-40 stock portfolio applying our proprietary infrastructure classification
Pre-fee return of CPI plus 5-6%p.a. through the economic cycle	Valuation driven benchmark-unaware strategy
	Highly defensive, inflation-linked exposure

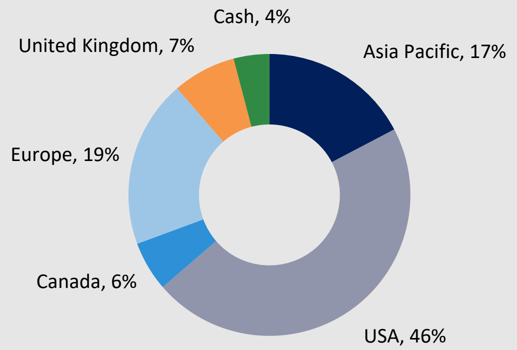
Top 10 Holdings[2]	Sector[2]	%
Transurban Group	Toll Roads	7.4
Enbridge Inc	Energy Infrastructure	5.7
Sempra Energy	Integrated Power	4.7
American Tower Corporation	Communications	4.7
Atmos Energy Corporation	Gas Utilities	4.5
Vinci SA	Toll Roads	4.5
Crown Castle International	Communications	4.3
Eversource Energy	Transmission and Distribution	4.3
Red Electrica Corporacion	Transmission and Distribution	4.3
Aena SME SA	Airports	4.0
	TOTAL:	48.4

Sector Exposure[2]



USD 5 Year Risk Measures[3]	Against MSCI World NTR Index	Against Infrastructure Benchmark[4]
Upside Capture	0.6	0.9
Downside Capture	0.7	0.8
Beta	0.7	0.7
Correlation	0.8	0.9

Geographical Exposure[2]



3 Year rolling return[5] (measured monthly)	1 Year	3 Years	5 Years	Since Inception
Against the Infrastructure Benchmark[4]				
No. of observations	12	36	60	66
Average excess return (% p.a.) (Gross)	2.4%	3.5%	3.9%	4.1%
Average excess return (% p.a.) (Net)	1.5%	2.6%	3.1%	3.3%
Outperformance consistency (Gross)	100%	100%	100%	100%
Outperformance consistency (Net)	92%	94%	97%	97%

Performance[6]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	-0.5	11.1	6.5	7.0	7.9	8.1
Composite (Net)	-0.7	10.2	5.7	6.1	7.0	7.3
Global Infrastructure Benchmark	1.3	22.1	5.8	5.0	4.4	5.0
Excess (Gross)	-1.8	-11.0	0.7	2.0	3.5	3.1
MSCI World NTR Index	0.0	28.8	13.1	13.7	10.5	11.0

Annual Performance[6] (%)	CYTD	2020	2019	2018	2017	2016	2015	2014	2013*
Composite (Gross)	4.6	-5.7	26.7	-4.4	25.0	4.4	3.9	14.1	4.6
Composite (Net)	3.9	-6.4	25.7	-5.2	24.0	3.6	3.1	13.2	4.0
Global Infrastructure Benchmark	6.3	-6.5	25.8	-10.4	19.1	11.4	-12.2	14.1	0.9
Excess (Gross)	-1.7	0.8	0.9	6.0	5.9	-7.0	16.1	0.0	3.7
MSCI World NTR Index	13.0	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	14.7

[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 Select Infrastructure Composite calculated before fees in USD. 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 in USD and rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with outperformance consistency indicating the percentage of positive excess returns. Strategy inception is 2 May 2013.
[6] 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. Strategy inception is 2 May 2013. 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.

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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.

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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.

Strategy Commentary

The strategy recorded a negative return in the September quarter. The stocks that detracted the most were the investments in Crown Castle International, Atmos Energy and Norfolk Southern of the US. Crown Castle, a US-based owner of telecom towers, fell due to increasing concerns around inflation. Atmos Energy, which distributes natural gas, fell over concerns that rising natural gas prices may hamper its capex plans. Norfolk Southern, which operates railroads in North America, slid as sequential weekly rail volume growth slowed and as President Joe Biden issued an executive order that seeks to promote competition in the sector.

Stocks that contributed the most included the investments in Sydney Airport, Spark Infrastructure and Red Eléctrica of Spain. Sydney Airport surged following a A$24 billion takeover offer from a consortium led by the infrastructure manager IFM. Red Eléctrica, which operates Spain's electricity grid, performed strongly as the market warmed to its locked-in regulatory outlook and resilience to rising energy prices in Europe. Spark rose after the electricity transmission company received a A$5.2 billion takeover offer from Ontario Teachers' Pension Plan Board and Kohlberg Kravis Roberts.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Stock Story: Xcel Energy

Xcel Energy

George Floyd was choked to death under the knee of a US policeman in south Minneapolis in May last year. A few kilometres away from the murder site is the headquarters of Xcel Energy, an electricity and natural gas company that operates across eight mid-western US states.

Xcel Energy Chairman and CEO Ben Fowke, calling Floyd's death and the uproar that followed "an awakening", used his appointment around that time as chairman of the industry trade association, the Edison Electric Institute, to add racial inequality to the industry's agenda. Across the sector, 57 CEOs committed to address racial unfairness in their companies and communities. For its part, Xcel Energy added diversity, equity and inclusion metrics to management compensation.

The utility that earned US$11.5 billion in revenue from servicing 3.7 million electricity and 2.1 million gas customers who mainly reside in Colorado and Minnesota seems to like setting worthwhile goals. When it comes to its core operations, Xcel Energy is leading the transition towards clean energy.

Xcel Energy, which traces its origins to 1904, has declared it will provide 100% carbon-free electricity by 2050, making it the first large US utility to declare such an intention. While that might seem so far off as to be meaningless, by the end of 2020 about 47% of the energy Xcel Energy produced already came from carbon-free sources.

Such progress means Xcel Energy has reduced carbon emissions by 51% since 2005 and the company intends that percentage to reach 80% by 2030. To get there, Xcel Energy will retire its coal-fired plants, preserve its nuclear assets, maintain natural gas as a backup and build large renewable projects. As the company operates in a windy part of the US (the other six states are New Mexico, North Dakota, Michigan, South Dakota, Texas, and Wisconsin), the renewable focus is wind farms.

What's in these worthwhile pursuits for investors? The answer is that, while the goal to achieve racial equality is altruistic, the climate goals are driven by financial self-interest that aligns with society's desire to mitigate global warming.

To understand how this financial self-interest operates it's necessary to understand the regulatory environment that governs utilities such as Xcel Energy. The quid pro quo under the regulatory regime is that utilities are granted the monopoly right to provide their services to a defined territory in exchange for having the return on capital spending capped. The easiest way, therefore, for a utility to increase earnings is to spend more on capital works, so long as they ensure that prices stay affordable for customers. Basically, Xcel Energy is a promising investment because regulators approve capital spending that alleviates any damage from climate change.

Xcel Energy spending plans can be split into two categories, where its investments in renewable technologies is one. The company is pivoting to wind farms because the cost of electricity generated by these assets has declined by almost 70% on average over the past decade. Because the wind is free, the company is well placed to grow shareholder returns without increasing bills for customers as it spends more than US$3.6 billion building wind farms over the next five years.

The other category is unrelated to climate change but is vital for Xcel Energy to provide its essential services. The company needs to replace ageing transmission and distribution infrastructure, especially power lines, to ensure the electrical grid functions properly. Nearly 25% of the company's 32,000 kilometres of transmission lines have exceeded their useful lives and close to another 20% will need replacing over the next decade. Xcel Energy is likely to spend more than US$10 billion over the next 15 years on new lines.

The company's approved capital spending over the coming decade means that investors can be confident the utility will achieve its long-term earnings growth objective of 5% to 7%, as it has in recent years while keeping customer bills low. If all goes to plan, Xcel Energy will offer a prime example of the predictable and steady earnings growth that infrastructure and utilities stocks can offer as an investment option.

To be sure, Xcel Energy faces challenges. Solar energy and more powerful batteries could reduce the demand for its electricity. But there's little sign that many of the utility's electricity customers are disconnecting from the grid. Another risk is that regulators could always reduce its authorised returns or exclude some capital spending from their sanction. Luckily for Xcel Energy, its regulators seem onside with its drive to cleaner energy. The advanced age of Xcel Energy's network increases the risk of accidents, especially explosions from gas leaks. All the spending on modernising Xcel Energy's assets will diffuse this risk over time. Chances are Xcel Energy will stay a good investment while doing good.

Sources: Company website, 2020 annual report.