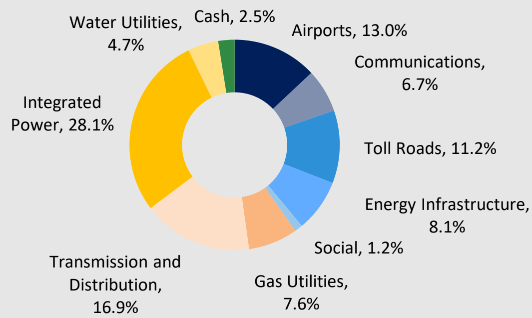
MFG Core Infrastructure (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets [1]
Gerald Stack	18 January 2012	USD $3,960.8 million	USD $7,567.3 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

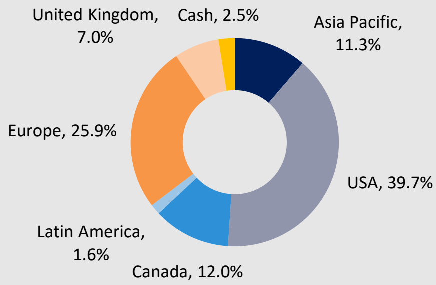
Top 10 Holdings[2]	Sector[2]	%
Enbridge Inc	Energy Infrastructure	3.2
Aena SA	Airports	3.1
Abertis Infraestructuras	Toll Roads	3.1
National Grid PLC	Transmission and Distribution	3.0
Atlantia SpA	Toll Roads	3.0
Transurban Group	Toll Roads	3.0
TransCanada Corp	Energy Infrastructure	3.0
Aeroports De Paris	Airports	2.7
Power Assets Holdings	Integrated Power	2.6
Snam Rete Gas SpA	Gas Utilities	2.5
	TOTAL:	29.2

Sector Exposure[2]



USD 5 Year Risk Measures[4]	Against Benchmark[5]	Against Global Equities
Upside Capture	1.1	0.8
Downside Capture	0.9	0.4
Beta	0.9	0.6
Correlation	0.9	0.5

Geographical Exposure[2]



Cumulative Performance[3]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	**2.2**	**21.2**	**9.1**	**11.7**	**12.6**
Composite (Net)	2.0	20.4	8.3	10.9	11.8
Global Infrastructure Benchmark	1.6	19.1	5.2	8.8	8.5
Excess (Gross)	0.6	2.1	3.9	2.9	4.1
MSCI World NTR Index	5.5	22.4	9.3	11.6	12.0

Annual Performance[3]	CYTD (%)	2016	2015	2014	2013	2012*
Composite (Gross)	**21.2**	**7.2**	**-0.1**	**17.4**	**14.0**	**16.4**
Composite (Net)	20.4	6.5	-0.8	16.6	13.2	15.6
Global Infrastructure Benchmark	19.1	11.4	-12.2	14.1	14.4	7.0
Excess (Gross)	2.1	-4.2	12.1	3.3	-0.4	9.4
MSCI World NTR Index	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.
3 Returns are for the 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 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.

The Global Core Infrastructure 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 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 list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations 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.

Market Commentary

Global infrastructure stocks rose for a fourth consecutive quarter in the December quarter after infrastructure companies reported healthy earnings, although they underperformed global equities because higher US bond yields reduced the relative attractiveness of long-duration assets such as infrastructure stocks, and infrastructure stocks were judged as benefiting less relatively from the lower US corporate tax rate. Utilities, a large subset of infrastructure, was the only one of the 11 industry classifications within the MSCI World Index that fell in US-dollar terms over the quarter.

US government bond yields, the benchmark for global credit markets, rose over the quarter as reports showed the US economy was growing fast enough to stir inflation, even without any investment spurred by the lower corporate tax rate. Over the quarter, US government two-year yields climbed from 1.48% to 1.88% while 10-year yields rose from 2.33% to 2.41%. Higher bond yields dim the appeal of infrastructure stocks, which are viewed as 'bond proxies' over the short term because, like bonds, they offer reliable income streams.

Infrastructure stocks were swept along in the general rise in shares over the quarter when global stocks set record highs as they rose for a seventh straight quarter as US companies overall posted higher-than-expected earnings, the internet giants surged on strong results and their upbeat outlooks, US Congress slashed the corporate tax rate, the Federal Reserve projected that it would only tighten US monetary policy slowly, and the world's major economies grew in unison for the first time in about a decade. European stocks, however, slid on political uncertainty as Germany's indecisive election in September left the incumbent Christian Democratic Union of Germany party led by Chancellor Angela Merkel struggling to form a coalition government.

Strategy Commentary

The strategy recorded a positive return over the three months. On a stock level contribution basis, the best performers included investments in Aeroports de Paris, Aena of Spain and Abertis Infraestructuras of Spain. Aeroports de Paris surged 16% on healthy traffic numbers and speculation the French government was readying to sell its 50.6% stake in the airport operator. Aena gained 11% after the Spanish airport operator's third-quarter result showed continued strong passenger traffic growth, and the company indicated strong expected growth for the winter schedule. Abertis jumped 10% after Germany's Hochtief joined a bidding war to take over the Spanish toll-road operator, which reported a 2.4% rise in profit for the first nine months of fiscal 2017 on higher traffic.

Lagging stocks on a contributions basis included the investments in PG&E, PPL and Edison of the US. PG&E slumped 34% amid concerns that under Californian law the electricity utility could be liable for billions of dollars of damage from bushfires in October even if it were not found to be negligent. PPL fell 18% after the US energy utility reported third-quarter results that missed key estimates. Edison lost 17% on concerns its power lines might be cited as the cause of bushfires that raged over southern California in December.

Movements in stocks are in local currency.

Key Stock in Focus – Getlink

Getlink – the owner of the 'rolling motorway' between the UK and France

Drivers arrive at a terminal in Coquelles in France or at Folkestone in the UK. They enter, check in and navigate border controls. Time permitting, they can browse at shops, eat at restaurants, change currency, exercise their pets or just wait for about 30 minutes. When called, they drive their cars onto Eurotunnel Le Shuttle or their trucks onto Eurotunnel Le Shuttle Freight, trains that are 775 metres long. About 35 minutes after departure, they arrive at the other side of the English Channel – having travelled underneath – and drive off the shuttles and onto the connecting motorways. In total, the trip by rail under the seabed takes around an hour, much less time than travelling on the alternative ferries.

Such is Getlink's primary asset, the Eurotunnel. The 50-kilometre tunnel is, in fact, a system of three connected tunnels – two single-track railway tunnels 30 metres apart and a service tunnel in between. When tunnelling started in 1988 from the UK and France simultaneously, the project was rated one of the biggest infrastructure project ever undertaken. The 37.9 kilometres underwater stretch that was bored an average 50 metres below the seabed – the lowest point is 75 metres below – is the longest undersea tunnel in the world. The soil dug up and then dumped on the UK expanded the country by 36 hectares, while the French created a hill with their debris.

As an infrastructure asset, the tunnel serves as a 'rolling motorway' that connects the French and British national motorway systems. Cars and trucks travel across the channel by riding in purpose-built shuttles. High-speed passenger trains also speed through the tunnel on the same tracks as the shuttles, which provides people with a fast and reliable way to move between London and Paris and other cities.

Getlink's business generated about 900 million euros (A$1.4 billion) in revenue in 2016 from transporting vehicles and people by train and by allowing freight and high-speed passenger trains to pass through the tunnel. The prospect of more passengers paying higher fares together with increasing numbers of passenger and freight trains, when combined with low maintenance costs, should lead to relatively stable long-term earnings growth for the foreseeable future. Additionally, one of the more attractive features from an investor's point of view is the long duration of Getlink's concession contract for Eurotunnel – the company has the right to operate the tunnel until 2086.

Favourable trends

Getlink's Eurotunnel is not a pure monopoly operator but, like toll roads, it has competitive advantages compared with the alternative routes (in this case, the ferries). Chief amongst these are speed and reliability – transiting via the Eurotunnel takes less than half the time of the ferries and journeys are far less vulnerable to unfavourable weather, which can delay and disrupt ferry services.

These advantages allow the Eurotunnel to capture attractive shares of the markets in which it operates. In 2016, Eurotunnel reported a 39% market share (up from 37% the year before) in the transporting of trucks across the English Channel (where the Eurotunnel crosses). The market share is even higher in the passenger markets as the tunnel has a 55% share of the cars crossing the Channel, and about 80% share of passenger traffic between Paris and London on high-speed rail via the Eurostar service.

Like all transport assets, Eurotunnel's operating environment is influenced by economic conditions. The number of trucks depends on how the economy is performing and exchange rates can influence traffic volumes. The recent drop in the British pound, for instance, made outbound leisure travel from the UK more expensive, albeit this can also be a boon as people trade down to self-drive holidays, while it was a drag on truck volumes as it made imports to the UK more expensive. The Eurotunnel is also exposed to specific risks such as cheaper fuel prices (which make the ferries more competitive) and incidents such as the 2015 terrorist attacks in France that curbed UK tourist traffic.

The greatest uncertainty over the company's outlook is the UK's impending separation from the EU. The terms of the UK departure are unknown and any major disruption to trade between the UK and Europe would hit Eurotunnel's revenue as a quarter of the goods traded between the UK and Europe pass through the tunnel, including fresh produce that needs certainty of delivery.

Notwithstanding these risks, the Eurotunnel is attracting more traffic. Over the past five years, truck volumes on the shuttles have grown at 5.4% p.a. to 1.6 million a year, and car volumes have grown at 2.9% p.a. to 2.6 million each year. (About 20 million people use the Eurotunnel in some way each year.) Passenger numbers on the tunnel's high-speed rail have grown more modestly over the past five years (0.7% p.a.); however, as additional cities are connected to London (such as the direct link to Amsterdam that was launched in December 2017), high-speed rail will attract more passengers. While the charges for high-speed rail passengers are set under a long-term contract, the popularity of the Eurotunnel shuttle service – best shown by the growth in cars and trucks using the service – means Getlink can charge higher prices each year. The average price the Eurotunnel charges car and truck shuttle users, for example, has increased on average by 3.7% p.a. since 2011. Part of this has come from increased customer segmentation and a premium product offering that has helped to reduce price elasticity. The rise in volumes and prices is why we expect the asset will deliver as an investment as it fulfils its role as a critical piece of infrastructure for facilitating trade across the channel.

Over the medium term, Getlink's Eurotunnel enjoys two favourable trends. The first is that policymakers and the public want more high-speed rail services – more direct services are expected to open between London and continental Europe. The other is that, despite any short-term disruptions that may occur from Brexit, ultimately economic growth in Europe and the UK should boost growth in trade and passenger traffic between the Eurotunnel's Coquelles and Folkestone terminals.