

Annual Investor Report 2017

MFG Asset Management Infrastructure Strategy

Dear investor,

I am pleased to write to you, an investor in the MFG Asset Management Infrastructure Strategy. We note that for the 12 months to 30 June 2017, the strategy delivered a net return of 8.79% in US dollars to investors, which was 2.07% less than the benchmark return of 11.73%.

Portfolio strategy

Our investment philosophy has not changed since we launched the strategy in mid-2007. We seek to build a portfolio of outstanding infrastructure and utility companies. We aim to invest in these companies at prices that deliver attractive risk-adjusted returns over a three- to five-year period.

Infrastructure assets generally produce reliable earnings when providing essential services to the community. Over time, the predictable earnings or cash-flow streams derived from infrastructure assets are expected to deliver income and capital growth for investors.

Where our strategy is different is that we apply a stricter definition to what qualifies as infrastructure. We believe that a key reason why investors invest in infrastructure is that they seek the reliable returns that are associated with the asset class. To ensure we achieve this key objective we limit our investment universe to stocks that provide investors with predictable, through-the-cycle, inflation-linked returns. This means that we exclude infrastructure stocks whose earnings are exposed to competition, sovereign risk and changes in commodity prices.

The universe of infrastructure assets that we consider for the strategy mainly comprises two sectors:

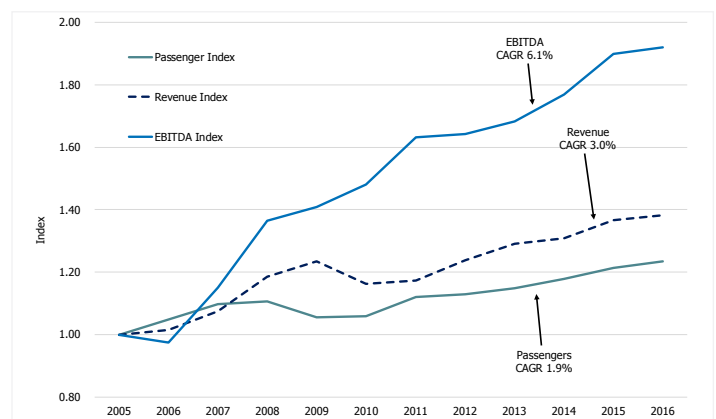
- Regulated utilities, which includes energy and water utilities. We estimate that utilities comprise about 60% of the potential investment universe for the strategy. Utilities are typically regulated by a government-sponsored entity. Such regulation requires the utility to efficiently provide an essential service while allowing the utility to earn a fair rate of return on the capital it has invested.
- Infrastructure, which includes airports, ports, railroads, toll roads, communications assets and energy infrastructure (oil and gas pipelines). Regulation of

infrastructure companies is generally less intensive than for utilities and allows companies to benefit from a greater number of people using their services. As economies develop and become more interdependent, we expect aviation, shipping and vehicle traffic to increase, as will demand for communications and energy.

Utilities and infrastructure companies provide essential services, while facing limited, if any, competition. Because the services are indispensable, the prices charged can be adjusted with limited impact on demand. As a consequence, earnings are more reliable than those for a typical industrial company and generally enjoy inherent protection against inflation. Consider it the triumph of cash flow, as the following examples show.

Aéroports de Paris (ADP) owns the major airports in Paris. Over the past decade, aviation has been subject to demand shocks that include the global financial crisis and terrorist strikes, and ADP has not been immune. The chart, however, shows that the company's underlying financial performance has progressed in a reliable manner. The combination of long-term passenger growth at ADP's airports, price increases for ADP's services and cost-saving measures has led to measured but consistent growth in cash flows and earnings (as measured by earnings before interest depreciation and amortisation or EBITDA).

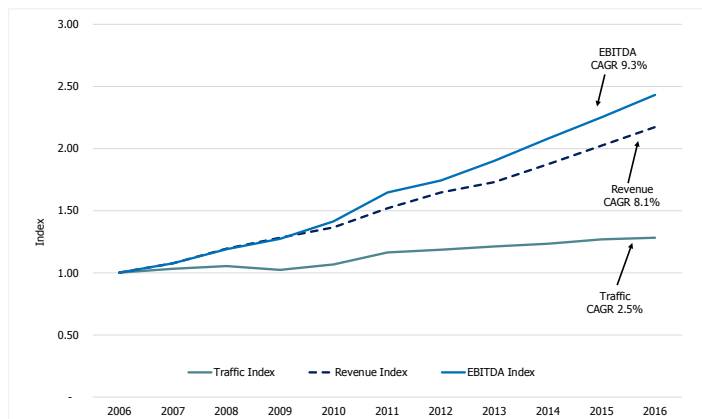
Chart 1: ADP – Passenger, revenue, EBITDA (2005-15).



Source: Aéroports de Paris, MFG Asset Management analysis.

CityLink in Melbourne is the original asset for which Transurban was founded in 1995 to develop and operate. Traffic on the road has grown at a modest but consistent rate over time. When combined with toll increases and stable operating costs, this cash flow or revenue growth has led to reliable and consistent EBITDA growth over time. Just as for ADP, the vital nature of the service delivers for investors over time.

Chart 2: CityLink – Traffic, revenue, EBITDA (2006-16).



Source: Transurban, MFG Asset Management analysis.

With infrastructure assets, the stability of earnings is influenced by competitive positioning and numerous risks. Key risks we consider are:

- Sovereign risk – We avoid countries where political decisions that undermine the contractual position or potential earnings of a company can be made easily. We only invest in countries where the judicial system and law are sound, so that contractual positions can be enforced as required.
- Regulatory risk – We avoid regulatory jurisdictions where regulatory processes are opaque or applied inconsistently.
- Commodity-price risk – We seek to avoid businesses whose earnings are meaningfully exposed to the price of the product they transport. Many pipeline businesses in the US, for example, are excluded from our universe for this reason.
- Leverage risk – We avoid businesses with excessive debt or that might struggle to pay their interest bills.

Portfolio review for 2016-17

Changes in interest rates during the past 12 months affected the performance of the strategy over the period. In the first half of fiscal 2017, an increase in prevailing 10-year US government bond yields subdued the strategy's returns. Performance improved in the second half of the fiscal year when investors refocused on the reliability of the earnings and cash flows that infrastructure companies and regulated utilities generate.

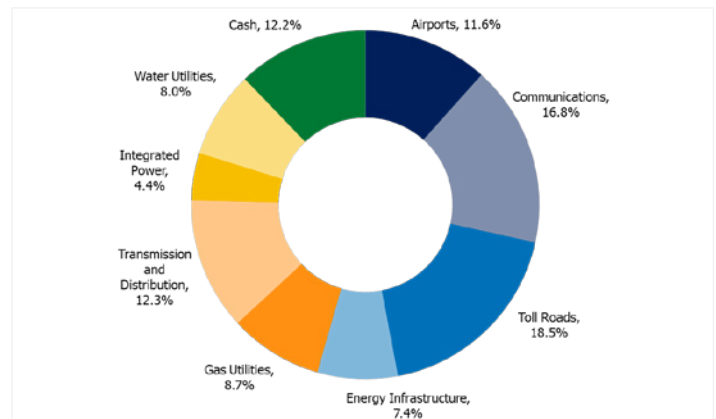
At 30 June 2017, the portfolio consisted of 31 investments compared with 29 investments a year earlier. The top-10 investments represented 46% of the portfolio at 30 June 2017, compared with 50% a year earlier.

The strategy held approximately 8.9% in cash on 30 June 2017 compared with 12.2% a year earlier. The decision to

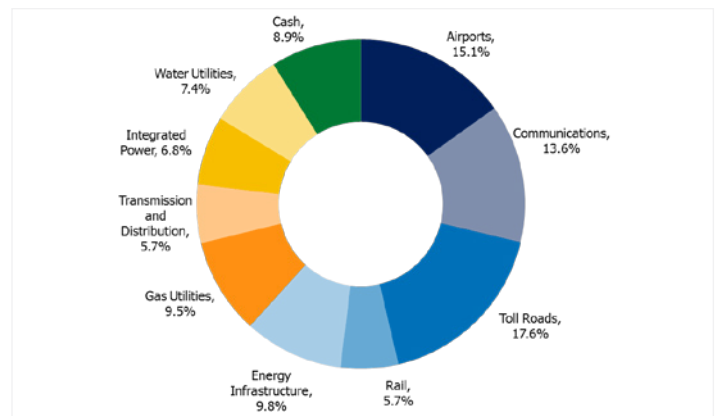
hold a large part of the portfolio in cash reflects a view that accommodative monetary policy of recent years has affected global asset prices and that any unwinding of this policy could lead to a rapid repricing of assets. We expect to invest the bulk of our cash holding over the medium term.

The composition of the portfolio by sector at 30 June 2016 and 2017 was:

Portfolio by sector at 30 June 2016



Portfolio by sector at 30 June 2017



The key changes to the portfolio over the year are a reduced allocation to utilities and a corresponding increase in the allocation to infrastructure. The major increases to infrastructure included adding rail investments and increasing the holding to airports.

The easy global monetary conditions of recent years have boosted regulated utility stocks. It is our assessment that regulated utilities in the better-performing economies of the world, effectively the most-defensive infrastructure investment opportunities, have become expensive compared with opportunities available in the infrastructure sector. We have, accordingly, reduced the portfolio's allocation to regulated utilities in the US and the UK and increased the portfolio's exposure to infrastructure stocks.

Railroads are considered infrastructure because they provide a basic and essential role by connecting the producers and consumers. From agriculture to automotive parts to chemicals and coal, railroads serve practically every industry and form essential infrastructure for communities. Key factors that make US rail companies attractive include:

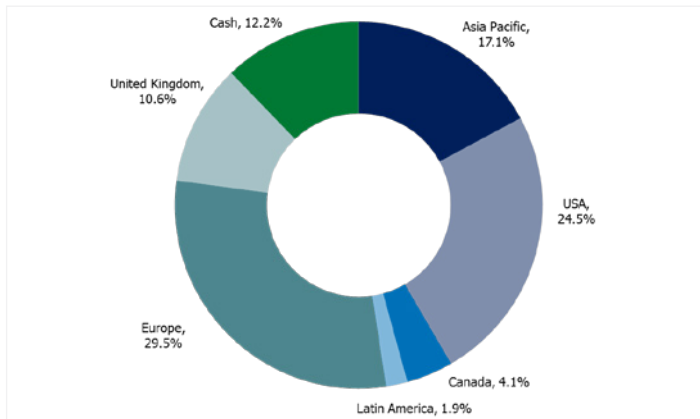
- Earnings have limited sensitivity to competition

– North American railroad companies operate within duopoly markets, which means competitive pressures are limited. Within each market, the main operators have shown the discipline needed to expand margins. Capital intensity, network effects and right-of-ways create barriers to new entrants. Rail is typically the only economical option for shippers, particularly when hauling low-value heavy goods such as minerals and grains.

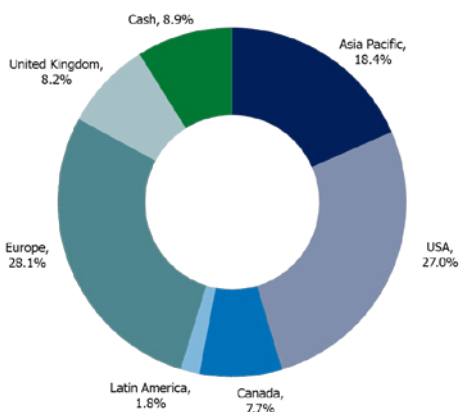
- Earnings have become less sensitive to commodity prices – As fuel costs represent a large portion of rail operating costs, operators have introduced surcharges to pass-through changes in fuel costs.
- Rail operators benefit from an effective regulatory regime – Regulation is light and constructive.

The composition of the portfolio by geography at 30 June 2016 and 30 June 2017 was:

Portfolio by region at 30 June 2016



Portfolio by region at 30 June 2017



While we have increased the share of the portfolio invested in North America, we remain underweight relative to our potential investment universe. The bulk of the available listed infrastructure investment opportunities in North America are regulated utilities and, as outlined earlier, it is our assessment that utilities are less attractive than opportunities in the infrastructure sector.

The strategy's top-performing stocks for the year to June 2017 were generally infrastructure companies rather than utilities and included:

- US rail companies CSX and Norfolk Southern, which operate in an effective duopoly and benefitted from

expectation that operational efficiencies would improve.

- Satellite companies SES and Eutelsat, which experienced something of a recovery after their respective share prices fell dramatically in the prior year. While neither company's share price has fully recovered, their financial results have stabilised.
- Airport companies ADP and Flughafen Zuerich, which enjoyed passenger growth. While the terrorist attacks that occurred in Paris in 2015 and 2016 reduced French tourist traffic in 2016 and lowered passenger numbers at ADP's airports in Paris – Charles de Gaulle Airport and Orly Airport – these numbers have rebounded.
- Italian toll-road operator SIAS, which benefitted from more traffic and improved investor sentiment.

The strategy's worst-performing stocks included UK utilities National Grid and United Utilities and energy infrastructure companies Enbridge of the US and Koninklijke Vopak of the Netherlands.

- The UK utilities performed strongly but they were viewed by investors as havens in the final weeks of fiscal 2016 amid the uncertainty created by the UK vote to leave the EU. While operating performance has been solid for both companies in the past year, the gains in share price in the prior 12 months led to subdued performance over the past fiscal year. We still assess the companies to be attractive investments.
- Enbridge and Vopak provide infrastructure to the energy industry. Enbridge essentially transports oil and gas across North America while Vopak stores oil and chemicals around the world.

Outlook

We expect global monetary conditions to become less accommodative in coming years, which means long-term interest rates are likely to rise. There are two key areas we focus on when we assess what higher interest rates could mean for infrastructure stocks:

- The impact on the businesses – We are confident that the businesses that meet our investment-grade infrastructure criteria are well placed to meet our expectations over the medium term even if interest rates rise.
- Impact on valuations and on debt and equity markets – An increase in interest rates can be expected to lead to higher debt costs and higher long-term discount rates. Our forecasts and valuations for the businesses in which we have invested take these factors into account. The history of financial markets, however, indicates that higher interest rates will increase uncertainty. Stocks that are regarded as 'defensive', including infrastructure and utilities, are often shunned when interest rates increase because investors switch to higher-growth sectors. It is our experience, however, that provided these businesses have solid fundamentals, their stock prices will revert to a longer-term trend that reflects their earnings profiles.

Notwithstanding volatility on equity markets, we expect the underlying earnings of infrastructure and utility companies in our restricted universe to remain reliable and predictable. Ultimately, the value of the companies in our portfolio reflect the future cash flows they are expected to generate and the risks associated with those revenue flows. We believe that investment markets are pricing in higher, more 'normal' levels of interest rates. This means that if interest rates increase over the medium term, we can expect the impact on asset prices to be somewhat muted because investors have already allowed for some increase in rates.

Even allowing for the resilient nature of the stocks held in the portfolio, we expect to see volatility in equity markets, particularly if US interest rates rise as we expect. We are confident, however, that any increase in interest rates will fail to hamper the financial performance of the stocks in the portfolio.

Overall in terms of our outlook, we believe that infrastructure assets, with their reliable earnings that are protected to a degree from inflation, are an attractive, long-term investment proposition. The predictable nature of their earnings compared with those offered by other asset classes means that infrastructure assets offer diversification benefits. In uncertain times, the reliable financial performance of infrastructure stocks makes them particularly attractive. An investment in listed infrastructure can be expected to reward patient investors.

A handwritten signature in black ink, appearing to read "Gerald Stack". The signature is fluid and cursive, with a large, stylized initial "G" and "S".

Yours sincerely,

Gerald Stack
Portfolio Manager
25 July 2017

IMPORTANT NOTICE

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited 'doing business as'/trading as 'MFG Asset Management' ('MFG Asset Management') and an investment fund or investment strategy managed by MFG Asset Management ('Strategy'). No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice.

The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. The past performance of the Strategy is not necessarily indicative of future results and no person guarantees the performance of the Strategy or the amount or timing of any return from it. There can be no assurance that the Strategy will achieve any targeted returns, that asset allocations will be met or that the Strategy will be able to implement its investment Strategy or achieve its investment objective. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Strategy. In making an investment decision, you must rely on your own examination of any offering documents relating to the Strategy.

No representation or warranty, express or implied, is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. MFG Asset Management will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages.

This material is strictly confidential and is being provided to you solely for your information and must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of MFG Asset Management. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any licence or right to use any trademark displayed without the written permission of the owner.

United Kingdom - This material does not constitute an offer or inducement to engage in an investment activity under the provisions of the Financial Services and Markets Act 2000 (FSMA). This material does not form part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any shares, units or other type of investment product or service. This material or any part of it, or the fact of its distribution, is for background purposes only. This material has not been approved by a person authorised under the FSMA and its distribution in the United Kingdom and is only being made to persons in circumstances that will not constitute a financial promotion for the purposes of section 21 of the FSMA as a result of an exemption contained in the FSMA 2000 (Financial Promotion) Order 2005 as set out below. This material is exempt from the restrictions in the FSMA as it is to be strictly communicated only to 'investment professionals' as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO).

United States of America - This material is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of MFG Asset Management to create legal relations on the basis of information provided herein. Where performance figures are shown net of fees charged to clients, the performance has been reduced by the amount of the highest fee charged to any client employing that particular 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 and also may be found in Part II of MFG Asset Management's Form ADV.

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 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.

Gross composite returns (includes the reinvestment of dividends and capital gain distributions), are net of transaction costs, withholding taxes and direct expenses, but before management fees, custody and other indirect expenses. Net composite returns are prepared by subtracting from the monthly gross returns one-twelfth of the maximum applicable to institutional investors (0.80% p.a.). 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.

MFG Asset Management

ABN 31 120 593 946, AFS Licence No. 304 301

MLC Centre, Level 36

19 Martin Place, Sydney NSW 2000 Australia

www.magellangroup.com.au

+61 2 9235 4888

info@magellangroup.com.au