Strategy Update: 30 June 2019

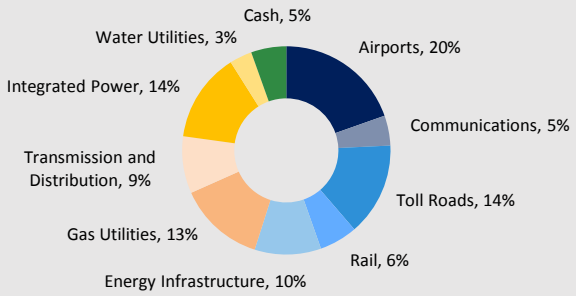
Magellan Select Infrastructure (AUD Hedged)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets [1]
Gerald Stack	1 July 2007	AUD $7,597.2 million	AUD $15,161.9 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

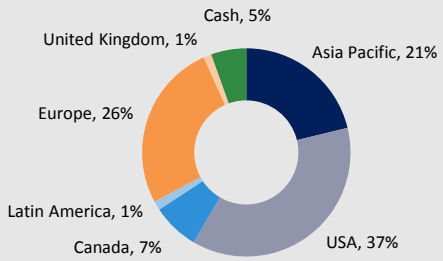
Top 10 Holdings[2]	Sector[2]	%
Transurban Group	Toll Roads	6.2
Atmos Energy Corp	Gas Utilities	5.8
Aena SME SA	Airports	5.3
Enbridge Inc	Energy Infrastructure	5.0
Xcel Energy Inc	Integrated Power	4.8
Aeroports De Paris	Airports	4.7
Atlas Arteria	Toll Roads	4.4
Sempra Energy	Gas Utilities	4.3
Eversource Energy	Integrated Power	4.0
Crown Castle International	Communications	3.7
	TOTAL:	48.2

Sector Exposure[2]



AUD 5 Year Risk Measures[4]	Against Global Equities	Against Infrastructure Benchmark[5]
Upside Capture	0.6	1.1
Downside Capture	-0.1	0.6
Beta	0.3	0.8
Correlation	0.4	0.9

Geographical Exposure[2]



Cumulative Performance[3]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	5.8	17.7	11.8	13.8	15.9	16.9	10.4
Composite (Net)	5.6	16.8	11.0	12.9	15.0	16.0	9.5
Global Infrastructure Benchmark	4.5	12.4	8.8	7.8	11.0	10.8	6.1
Excess (Gross)	1.3	5.3	3.0	6.0	4.9	6.1	4.3
MSCI World NTR Index Hedged to AUD	3.5	6.4	12.6	9.3	13.4	13.3	6.6

Annual Performance[3]	CYTD (%)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Composite (Gross)	19.8	0.6	18.9	7.8	12.6	24.0	19.1	16.8	12.4	13.0	25.5
Composite (Net)	19.3	-0.2	18.0	7.0	11.7	23.0	18.2	15.9	11.5	12.1	24.5
Global Infrastructure Benchmark	19.1	-6.7	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	10.0
Excess (Gross)	0.7	7.3	4.5	-6.3	18.0	1.1	0.6	7.7	7.7	7.3	15.5
MSCI World NTR Index Hedged to AUD	16.5	-7.4	19.8	10.4	3.8	12.3	31.8	18.8	-2.3	12.6	27.0

1 Comprised of all Infrastructure Strategies.
2 The data is based on a representative portfolio for the strategy. Refer to the end of the document 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 Select Infrastructure Hedged in 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 Select Infrastructure Hedged in AUD Composite before fees. The Global Equity Index is the MSCI World NTR Index (hedged to 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 March 2015, replaced on 1 January 2015 with the S&P Global Infrastructure Index NTR (hedged to AUD).

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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 ($A 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.

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The Global Select Infrastructure Hedged in AUD 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 portfolios are 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 strategy recorded a positive return for the quarter. Stocks that added the most on a contributions basis included the investments in Aena of Spain, Transurban, Auckland International Airport and Canadian Pacific. Aena rose 14% after Spain's biggest airport operator upgraded its traffic guidance for the year on a strong first quarter and strong capacity growth for the summer schedule in Europe. Transurban added 14% when investors turned to longer-duration assets as the Reserve Bank of Australia cut the cash rate from 1.5% to 1.25% in June and flagged more cuts to help the slowing economy. Canadian Pacific rose 12% as investors judged that the railway operator's weather-affected first-quarter earnings wouldn't stop the company achieving double-digit earnings growth for the fiscal year. Auckland Airport jumped 21% supported by a rotation to defensive names on weaker economic data and as the Reserve Bank of New Zealand cut interest rates to a record low 1.5%.

The only stock that detracted on a contributions basis was the investment in ADP of France. ADP lost 8% after France's constitutional court suspended the further sale of the government's 50.6% stake in the operator of Paris's airports ahead of a possible referendum on any sale proposed by political parties opposing the sale.

Movements in stock prices are in local currency.

Key Stock in Focus - Evergy

Evergy: A US electricity utility formed from a merger to save customers money.

In mid-2018, two regulated electric utilities in the US, Westar Energy and Great Plains Energy, completed their merger. The rationale for the merger was simple – lower customer bills while generating attractive and reliable returns for shareholders. The new entity, named Evergy, now generates and supplies electricity to about one million residents in Kansas and about 600,000 people in the neighbouring state of Missouri.

To understand why Evergy is a promising investment it helps to understand the regulatory framework under which utilities operate in the US. The crux of the model is that utilities are granted a monopoly to supply their services to a specified area but, in return, regulators place a limit on the return they can earn on the capital they invest to provide these services – an investment amount known as the 'rate base'. The regulation is designed to ensure providers supply (electricity or gas) an essential service to an area at a fair price while allowing them to earn a fair return on their investment.

Management identified annual savings of about US$200 million from the merger and used a portion of these savings to gain regulatory approval. Regulators are typically wary of tie-ups such as the one that created Evergy because they want to ensure consumers are protected. To win regulatory approval, therefore, the companies that became Evergy made two promises. The first was there would be no increases to customer bills for five years (excluding a pass-through of changes in fuel costs). The other is that it would immediately give its customers a one-off rate credit of US$60 million and annual credits of US$50 million each year over the next five years.

Investors like the merger because it set up a company that is primed to generate 5% to 7% growth in earnings per share over the next five years. The company will achieve this growth target in two ways. The first is from the cost savings above those handed back to customers. The other is that Evergy intends to repurchase about 20% of its shares over the next two years, a move that will bring the company's debt levels to a level broadly in line with industry peers.

The longer-term advantage of the permanent cost savings from the merger (the US$150 million left over each year after US$50 million is passed back to customers) allows Evergy to grow its rate base – and thus earn greater profits – without needing to ask the regulator to approve higher charges for its customers. Evergy is a prime example of the best sort of regulated utility stock; namely, one that provides investors with strong underlying cash flows as well as long-term structural growth.

To be sure, Evergy comes with some risks. Cost savings are never assured, and the company might overpay for its own stock. But these risks are unlikely to derail the investment thesis for the company.

Cleaner power

Evergy's origins trace to 1909 when one of the companies that formed Westar in 1992 was founded. Evergy's assets now extend to more than 22,000 kilometres (13,700 miles) of transmission lines and 84,000 kilometres (52,200 miles) of distribution lines (the ones that reach households) that are fed electricity from its multiple sources of generation. Evergy's key sources of regulated generation are coal, natural gas and wind, which account for more than 90% of generation capacity.

Evergy says its mission is to empower a better future. To that end, the company aims that by the end of 2020 nearly half the power it supplies to homes and businesses will come from emission-free sources. In 2018, for example, Evergy retired about 1,500 megawatts of fossil generation capacity and added 244 megawatts of wind power. CO_2 emissions in 2018 were 36% below those of 2005.

The name Evergy was chosen to be a combination of 'ever' and 'energy'. Funnily enough, most Evergy customers are yet to see the new company name on their energy bills because these are still sent under the names Westar and Kansas City Power & Light, the subsidiary of Great Plains.

Later this year, Evergy will mount a marketing campaign to let its customers know about the new company. No doubt the cost savings for customers will get much publicity too.

Sources: Company filings, company website and Bloomberg.