AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Magellan FuturePay (Managed Fund)

(Chi-X: FPAY)

Initiating Coverage

August 2021

INDEPENDENT
INVESTMENT RESEARCH

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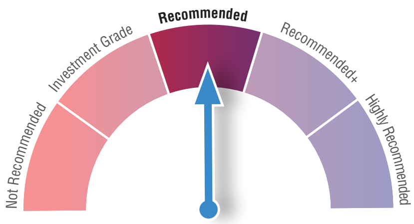
Contents

Magellan FuturePay (Managed Fund) (Chi-X: FPAY)

Note: This report is based on information provided in the Magellan FuturePay (Managed Fund) Product Disclosure Statement (PDS) dated 25 May 2021 and by the Manager.

Rating



Key Investment Information

Chi-X Ticker	FPAY
Listing Date	2 June 2021
NAV as at Listing	$5.7583 per unit
Units on Issue	Open-ended
Target Annual Income	$0.2436 per unit, adjusted for inflation
Fund Structure	Exchange Traded Managed Fund (ETMF)
Responsible Entity (RE)	Magellan Asset Management Limited
Investment Manager	Magellan Asset Management Limited
Market Maker	Magellan Asset Management Limited
Initial Target Distribution	$0.2436 p.a*
Initial Yield	4.25%p.a*
Fees:	
Management Fee (p.a)	1.0% incl. GST
Performance Fee (p.a)	na
Entry Fee (Buy spread for direct applications with the RE)	0.10%
Exit Fee	The sell spread (0.10% for direct investments) and the Mutualisation Amount, which can be up to 7.5% of the NAV.

*The Target Distribution will be adjusted for inflation on a quarterly basis.

FX Exposure

The Manager intends to invest in stocks on global stock exchanges and therefore will have direct exposure to foreign currency. The Manager has the ability to hedge the FX exposure, with exposure expected to be partially hedged, however the Manager gives no guarantee that the FX exposure of the Fund will be hedged.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

Magellan FuturePay (Managed Fund) (Chi-X: FPAY) ("FPAY" or the "Fund") is a newly created exchange traded managed fund (ETMF) that is seeking to provide investors predictable, monthly distributions that grow with inflation, with the potential for capital growth and protection in down markets. The Fund will be managed by Magellan Asset Management Limited (the "Manager"). The Manager is also the Responsible Entity (RE) of the Fund and will be responsible for making a market for the Fund. The Fund will seek to achieve its objective through an investment in a portfolio of securities that represents a blend of the Magellan Global Plus strategy (50%-60%) and the Magellan Core Infrastructure strategy (40%-50%), in combination with a reserving strategy whereby cash will be directed to a discretionary trust ("Support Trust"). The Support Trust will be used to support distribution payments if the portfolio performance is insufficient to meet the ongoing distribution requirements. The Support Trust is a separate pool of assets, which investors have no rights to (see The Support Trust section on page 4 for details on the Support Trust and the reserving strategy). A key aspect of the Fund is that it will be mutualising, via the Support Trust, a portion of the capital from the issue of new units and some of the excess returns of the portfolio to support distribution payments in weak markets. The premise for the reserving strategy is to reduce the erosion of the value of the portfolio of securities in weak markets by using the assets of the reserve (Support Trust) to contribute to distributions (either partially or fully).

The Manager will receive a management fee of 1.0%p.a (including GST) of the portfolio value of the Fund (ie. the value of the Fund less the Support Trust Rights). The management fee will only be charged at the Fund level. No performance fee is applicable.

INVESTOR SUITABILITY

The Fund has been designed for investors that: (1) seek a predictable monthly income that grows with inflation; (2) an investment that grows at or above inflation, net of income and fees; and (3) convenient access to capital with the flexibility to access their investment through their preferred transaction method - on-market through the Chi-X exchange or off-market through direct application with the RE (see Appendix A). An investment in the Fund may be suitable for those in retirement, however, may also be suitable for other investors seeking a long-term investment and require a stable, regular income, with the ability to access their capital if need be. In return for the inflation-adjusted, fixed distribution, investor's contribute to the Support Trust, with the Fund directing a portion of capital raised plus a portion of the excess portfolio returns to the Support Trust. Investors benefit from the Support Trust during periods of underperformance, however, have no rights to the assets of the Support Trust and therefore forego the value of the Support Trust upon exit from the Fund. As such, we view an investment in the Fund as suitable for those investors with a long-term investment horizon and those that are happy to give up a portion of capital return for a regular fixed income (adjusted for inflation) with downside protection.

RECOMMENDATION

Independent Investment Research (IIR) has assigned Magellan FuturePay (Managed Fund) (Chi-X: FPAY) a **Recommended** rating. The Fund provides an innovative solution to investors by aiming to provide a stable and predictable regular income stream over the long-term, while growing with inflation combined with the potential for capital growth. The Fund seeks to address the key drawbacks of other products offering inflation-adjusted income streams with an enhanced yield, capital growth potential, easy access to capital, and protection against deflation. In return for providing this, investors may forego the Mutualisation Amount upon exit, which represents the value of the Support Trust Rights to FPAY, capped at 7.5%. The mutualisation of capital and the use of the reserving strategy seeks to achieve the key objectives of the Fund including providing a steady inflation-adjusted income stream and preserving invested capital in weak markets. However, we note that the product is new and has no performance history and the mechanics of the Fund are highly engineered. As such, the Fund encompasses the execution risk associated with a new product.

SWOT

Strengths

- The Magellan Group has committed to contribute up to $50m to the Support Trust upon the establishment of the Fund to assist the Support Trust to be able to contribute to distributions if required as the Fund and Support Trust grows. The capital contributed will not be able to be withdrawn or returned to the Magellan Group, except on the wind up of the Fund or the removal of Magellan as the Responsible Entity, at the discretion of the Trustee of the Support Trust. This contribution will benefit the Fund by offsetting any weakness from the portfolio of securities in the early years of the Fund in addition to ensuring the Reserve Ratio is not diluted from the issue of new units.
- The Fund will employ the Single Unit (dual registry) structure which enables investors to invest either on-market through the Chi-X exchange or off-market through a direct application with the RE.
- The ETMF structure provides for transparency of the value of the portfolio during the trading day through the iNAV (the intraday NAV), which is published on the Manager's website. We note that the Fund will invest primarily in global securities and therefore there will likely be little movement in value during the Australian trading day.
- ETMFs are required to appoint a Market Maker to provide liquidity for the Fund so that investors can trade at a price that is close to the NAV of the Fund. The Manager is the Market Maker for the Fund and has appointed a Market Making Agent to provide execution and settlement services on their behalf.
- FPAY seeks to provide a regular, inflation-adjusted distribution to investors with the benefit of readily available access to capital with unitholders able to buy and sell units on a daily basis either through the Chi-X listed ETMF or through a direct application with the RE.
- In addition to a steady inflation-adjusted distribution, FPAY offers the potential for capital appreciation. While a portion of the returns after paying fees and distributions may be directed to the Support Trust, this amount is capped meaning a portion of the capital returns will remain in the Fund. This compares to annuities where there is typically no or minimal capital growth potential.
- In addition to seeking to grow capital above the rate of inflation (after fees and distributions) FPAY provides protection against longevity risk through the mutualisation of a portion of the capital of the Fund in the Support Trust. Therefore distributions will continue to be supported by investors that have exited the Fund, with investors forgoing the value of the Support Trust Rights, capped at 7.5%, upon exit.

Weaknesses

- Whist simple in principal, the underlying mechanics of the Fund are sophisticated and not easily replicated.
- In order to receive the benefits of the Support Trust, investors will forego the Mutualisation Amount upon exit directly through the RE. The Mutualisation Amount represents the value of the Support Trust Rights included in the NAV, subject to a cap of 7.5%.
- There is no cooling off period. Given investors forgo the Mutualisation Amount upon exit which is up to 7.5% of the NAV, investors should be confident of their intent of a long-term investment before they invest in the Fund.
- Magellan Asset Management is both the Responsible Entity and the Manager of the Fund, which provides for potential conflicts of interest with respect to acting in the best interests of unitholders. We note that Magellan has significant resources at its disposal to implement the scheme effectively and is exposed to significant reputational risk which in our view reduces the risk of conflicts.

Opportunities

- An investment in the Fund seeks to offer investors a stable, inflation-adjusted income stream with an attractive yield and protection against deflation.
- Investors may be able to use the Single Unit Structure to their advantage upon purchase and sale of units in FPAY with the ETMF structure providing investors the ability to transact on the secondary market, potentially obtaining a better price than with a direct investment or redemption with the RE.

Threats

- Consistent periods of underperformance by the underlying investments may result in the depletion of the Support Trust. We note this would be particularly detrimental in the initial years of the Fund. The Manager seeks to reduce the risk associated with poor performance of the underlying funds in the initial years through the contribution of up to $50m by the Magellan Group, a portion of which will be contributed upon the issue of new units to ensure the Reserve Ratio is not diluted in the initial years, and access to the MFG Reserve Facility up to $100m.
- Whilst not a threat per se but more of something for investors to be aware of, the spread or price offered on the Chi-X exchange for the purchase or sale of FPAY units may differ to the spread or price if investors were to transact directly with the RE. For example, currently the bid price on Chi-X does not include the Mutualisation Amount, therefore if a unitholder wanted to exit they could sell on-market for the full value of the NAV, minus the bid/ask spread, compared to selling directly with the RE in which the Mutualisation Amount would be subtracted from the NAV for the exit price.
- Unlike an annuity investment, the distribution is not guaranteed by the Manager. Therefore, there may be circumstances where the Fund is unable to meet the distribution requirements. We note that the Manager is making all efforts to ensure that this does not occur.

PRODUCT OVERVIEW

Magellan FuturePay (Chi-X: FPAY) is a newly created exchange traded managed fund (ETMF) that is seeking to provide investors predictable, monthly distributions that grow with inflation, while reducing the risk of permanent capital loss. The Fund will be managed by Magellan Asset Management Limited (the "Manager"), who is also the Responsible Entity (RE) of the Fund.

The Fund will seek to achieve its objective through an investment in a portfolio of securities that represents a blend of two Magellan investment strategies: (1) Magellan Global Plus strategy (50%-60%); and (2) Magellan Core Infrastructure strategy (40%-50%), in combination with the use of a reserving strategy, whereby a portion of capital from the issue of new units and a portion of excess returns of the portfolio will be directed to the Support Trust.

The Fund has an initial Target Distribution of $0.2436 per unit per annum, paid in equal monthly instalments on the 15th of each month or the first preceding business day in the event the 15th of the month falls on a weekend or a public holiday. The RE intends to adjust the Target Distribution for inflation on a quarterly basis using the Australian Consumer Price Index (CPI). In the event the change in CPI is negative, the Target Distribution will not be reduced, however the CPI must exceed its previous level before the Target Distribution will commence increasing in line with CPI. We provide a worked example below. Note this example does not reflect inflation expectations. It is merely an example.

Inflation Adjusted Target Distribution Example

Target Monthly Distribution per unit	Quarterly Change in CPI	Distribution for Following Quarter	% Change in Monthly Distribution
$0.0203	+2.0%	$0.0207	+2.0%
$0.0203	0.0%	$0.0203	0.0%
$0.0203	-2.0%	$0.0203	0.0%

The Fund operates under the AMIT rules and as such, the distributions that an investor receives may not be equal to the taxable income of the Fund.

To achieve the distribution and capital objectives of the Fund, a Support Trust has been established, which is a separate pool of assets that may be used to assist the Fund in making distributions in the event the Fund's portfolio value does not exceed the inflation growth target in any given month. The Support Trust will effectively be used to make or 'top up' the distributions if required. All investors will contribute to the Support Trust through reserve contributions. Upon unit issuance, an amount equal to the value of the Support Trust Rights up to a maximum of 7.5% of the NAV of the Fund, will be diverted to the Support Trust. Investors get the benefit of the Support Trust upon investment, however, in the event investors withdraw from the Fund, they will forego the value of the Support Trust upon exit from the Fund (which is represented by the Mutualisation Amount). We note that unitholders may be able to obtain a better result if sold on-market, with the current bid price of FPAY on-market not including the Mututalisation Amount.

The Support Trust

The Support Trust is a discretionary trust in which the assets are held separately to the FPAY trust. The Support Trust will be managed by Magellan in accordance with the Trust Deed. Assets in the Support Trust are funded by contributions from the Fund upon the issue of units, a portion of excess returns of the underlying investments and amounts contributed by the Magellan Group (an initial contribution of $50m).

The Support Trust can currently only invest in cash and cash equivalents and will generally invest in assets that are defensive in nature. The investable assets of the Support Trust can be changed with approval from the Investment Committee, however, it is expected that the assets in the Support Trust will remain primarily in cash and cash equivalents.

The assets of the Support Trust do not form part of the assets of FPAY. Any Reserve Contributions made to the Support Trust cease to be assets of FPAY once contributed. Investors and the Manager have no claim over the assets of the Support Trust. Any capital contributed to the Support Trust on behalf of the Magellan Group will not be able to be withdrawn or returned to the Magellan Group, except on the wind up of the Fund or the removal of Magellan as the Responsible Entity, at the discretion of the Support Trust Trustee.

Reserve Ratio

The Reserve Ratio is the value of the Support Trust compared to the value of the Fund. The Manager will not contribute excess performance of the portfolio of securities of the Fund to the Support Trust when the Reserve Ratio is >20%. At this point, the Support Trust is likely to have 4-5 years of distribution coverage and is therefore deemed fully funded. When below 20%, the amount of excess returns directed to the Support Trust will be scaled depending on the Reserve Ratio. The lower the value of the Support Trust compared to the value of the Fund, the greater the amount of excess returns directed to the Support Trust.

Scale for Reserving Excess Returns

Reserve Ratio	Amount of Excess NAV Reserved
0%	50%
5%	37.5%
10%	25.0%
15%	12.5%
>20%	0.0%

The below shows the Reserve Ratio at the commencement of trading of the Fund on 2 June 2021.

Reserve Ratio at 2 June 2021	
Value of Fund	$10.0m
Value of Support Trust	$1.06m
Reserve Ratio	**10.6%**

Reserve Contributions

Reserve Contributions will be made monthly by the RE to the Support Trust with the contribution amount determined by:

- The issue of units in the Fund, subject to a cap of 7.5% of the gross consideration received; and
- The investment performance of the Fund and the Inflation Index Value - the RE will contribute a portion of the outperformance of the Fund to the Support Trust to continue to grow the Trust to support the distribution requirements in future periods. A maximum of 45% of the excess performance of the portfolio value and up to 50% of the excess NAV above the Inflation Index value will be contributed to the Support Trust in the event the Reserve Ratio is below 20%. If the Reserve Ratio is above 20%, the RE and the Manager consider the Support Trust to be fully funded and no excess returns will be directed to the Support Trust.

Mutualisation Amount

The assets of the Support Trust do not form part of the assets of FPAY and investors do not have a right to the assets held in the Support Trust. However, the RE of FPAY, as a named beneficiary of the Support Trust, holds certain legal rights to ensure that the Support Trust is administered by the Trustee in accordance with the terms of the instrument governing the Support Trust. These particular rights are known as the "Support Trust Rights". The FPAY NAV includes the value of the Support Trust Rights to unitholders (see FPAY NAV section below). The Mutualisation Amount is the value of the Support Trust Rights of the Fund, capped at 7.5%, and represents the amount that investors will forego upon exit from the Fund. As at 15 June 2021, the Mutualisation Amount was $0.39 per unit (6.7% of the NAV of the Fund).

Upon exit from FPAY direct through the RE, the withdrawal amount will be the NAV per unit less the Mutualisation Amount (the value of the Support Trust Rights included in the NAV) and an allowance for transaction costs.

MFG Reserve Facility

The RE has entered into a funding facility deed with the Magellan Group, under which the RE has the right to borrow additional funds from Magellan Group to support the Fund in meeting the Target Distribution payments. The Facility is capped at the lower of 2% of the Fund's portfolio value at the end of the previous month or $100m.

The RE may draw on the MFG Reserve Facility when the Reserve Ratio is less than 5% for an amount not exceeding two-thirds of the monthly Target Distribution to be paid by the Fund less any payments from the Support Trust that the Fund received. The funding facility has been put in place to ensure the Target Distribution can be met in the event the Support Trust is running low on reserves.

Borrowing costs will be incurred where the Fund draws on the MFG Reserve Facility. Interest will be calculated daily and payable monthly to the Magellan Group at a rate of 1-month BBSW + 5.5% on the outstanding balance. Borrowings are not required to be repaid until the reserve ratio exceeds 10%.

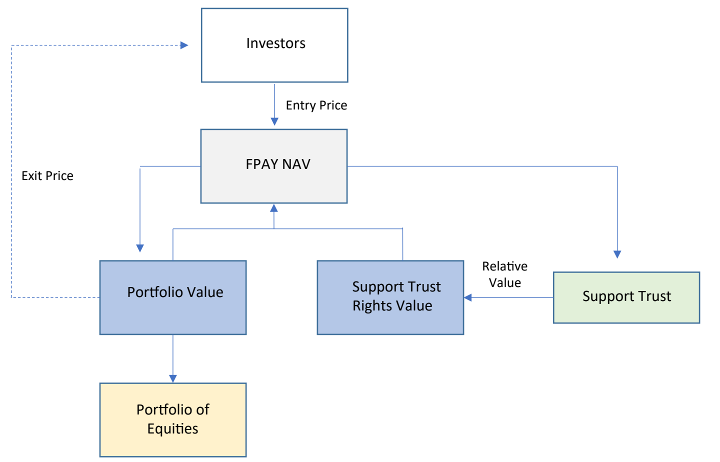
What Happens to the Support Trust Upon Wind Up of the Fund?

Neither investors of the Fund nor the Manager has any rights over the assets of the Support Trust while the Fund is open. In the event the Fund is wound up, the assets of the Trust will be distributed in accordance with the Trust Deed of the Support Trust. The Trust Deed states that upon winding up of the Support Trust, the Trustee may apply the remaining funds to any beneficiary of the Support Trust including the RE. The Magellan Group is contributing up to $50m to the Support Trust to support distributions in the event the underlying investments underperform in the initial years as well as to ensure the Reserve Ratio is not diluted upon the issue of new units in the initial years. Upon wind up of the Support Trust, the amount that may be returned to Magellan Group is capped at the amount of contributions provided to the Support Trust.

FPAY NAV

The NAV of FPAY will include the value of the underlying investments of the Fund less fees and expenses (Portfolio Value) plus the value of the Support Trust Rights. The Portfolio Value and the Support Trust Rights will vary over time. Upon exit from the Fund, the exit price will represent the Portfolio Value only with the unitholder having no rights to the value of the Support Trust Rights. We have provided a graphic below to illustrate the flow of funds for investors.

FPAY NAV & Flow of Funds



1) Portfolio Value

The portfolio value represents the value of the portfolio of securities (blended portfolio of securities representing Magellan Global Plus strategy and Magellan Core Infrastructure strategy), less fees and expenses.

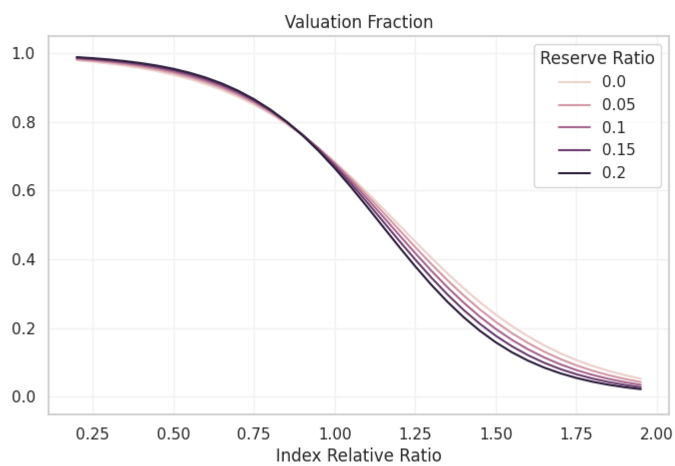
2) Support Trust Rights

The value of the Support Trust Rights represents a proportion of the net asset value of the Support Trust as determined by the RE. The value is determined by applying the Valuation Function to the value of the Support Trust. The Valuation Function is a formula which has been determined by the Manager which seeks to establish the value of the Support Trust to the Fund based on an arms length transaction between a willing buyer and a willing seller. Given this, the value of the Support Trust may be greater than the value ascribed to the FPAY NAV. For example, at the commencement of trading of FPAY on 2 June 2021, the Support Trust as a value of the Fund was 10.6%, while the Support Trust Rights were 6.7%.

The Valuation Function depends on the likelihood of the Fund receiving contributions from the Support Trust and so depends on the Index Relative Ratio and the Reserve Ratio. The below depicts how the value of the Support Trust Rights varies depending on the two ratios. At the time of the commencement of trading, the portfolio value of FPAY units was valued at $5.36 and had an Index Relative Ratio of 1.0. The better the performance of the underlying investments of the Fund, the lower the Support Trusts Rights value given the underlying investments cover the distributions and no support is required from the Support Trust. However, in the event of poor performance of the underlying portfolio, the Index Relative Ratio may fall below 1.0, which means distributions are more likely to be needed to be supported by the Support Trust and therefore the Support Trust is more valuable to unitholders.

In essence, when the Index Relative Ratio is greater than 1.0, the Support Trust will be less likely to be required to assist with distribution payments. When the Index Relative Ratio is less than 1.0 the value of the Support Trust Rights will be higher given there is a greater likelihood that distributions will be supported by the Support Trust.

Support Trust Rights Value



Source: FPAY NAV Permitted Discretions Policy, May 2021

How Does FPAY Differ From Other Inflation-Adjusted Annuity Products?

There are currently two alternative products on the market for investors that are seeking an inflation-adjusted annuity style return. These are: (1) Annuities; and (2) Inflation-linked Bonds.

- **Annuities:** Annuities provide investors a steady stream of income which can be inflation-adjusted if the investor chooses (this choice comes at an additional cost). In return for the initial investment amount, the investor receives a regular fixed distribution either for life or for the term chosen. While annuities provide a regular distribution irrespective of the performance of the stock market, there is no or limited opportunity for capital growth. Further to this, it can be difficult to access capital in a timely manner and the distribution yield is typically lower than FPAY offers for longer-term periods.
- **Inflation-linked Bonds:** Inflation-linked Bonds provide investors with an income stream that is adjusted either up or down according to inflation. While these securities offer protection against inflation, they do not protect investors against deflation.

FPAY seeks to address the drawbacks of the two alternative products by offering the potential for capital growth in addition to the inflation-adjusted income stream. The Manager seeks to achieve this through limiting the contribution of excess performance of the underlying investments to the Support Trust. FPAY also seeks to protect against deflation by not reducing the distribution amount in the event the inflation index is negative. In addition to this, FPAY provides readily available access to an investors capital.

We note that unlike Annuities, the income and capital returns from FPAY are not guaranteed by the Manager.

RESPONSIBLE ENTITY & INVESTMENT MANAGER

Magellan Asset Management Limited (Magellan) is the Responsible Entity (RE) and the Investment Manager of the Fund. Magellan is a wholly-owned subsidiary of Magellan Financial Group Limited (MFG), an ASX-listed asset management group. At 30 April 2021, MFG had total FUM of $110.4b. FUM has grown strongly over the past three years with FUM at 30 April 2018 of $66.2b.

The Manager has a focus on global equities, offering high conviction funds predominantly across global equities and global infrastructure. The Manager also offers exposure to Australian Equities through the Airlie Funds Management business. The Manager offers both listed and unlisted versions of their funds and hedged and unhedged versions to cater to differing investor preferences.

Magellan Funds

Name of Fund	FUM as at 30 April 2021	Inception Date	Performance Since Inception (p,a) as at 31 May 2021
Magellan Global Fund (Open Class)	$14,256m	1 July 2007	11.6%
Magellan Global Fund (Closed Class)	$3,182.2m	30 November 2020	2.8%
Magellan Global Fund (Hedged)	$1,671.3	1 July 2013	11.9%
Magellan Global Equities Fund (Currency Hedged) (Managed Fund)	$346.6m	4 August 2019	9.0%
Magellan High Conviction Fund	$718.4m	1 July 2013	14.3%
Magellan High Conviction Trust	$992.9m	11 October 2019	9.0%
Magellan Sustainable Fund	$7.1m	11 December 2020	5.6%
Magellan Infrastructure Fund	$2,752.5m	1 July 2007	7.7%
Magellan Infrastructure Fund (Unhedged)	$1,062.6m	1 July 2013	10.8%
Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)	$802.6m	19 July 2016	6.3%

The Portfolio Manager of the Fund is Paddy McCrudden. Paddy is responsible for the allocation of invested capital between the Fund and the Support Trust. Paddy was the creator of the Fund, which he has developed since joining Magellan in 2017. Paddy has a Ph.D in pure mathematics from Macquarie University in Sydney and was a lecturer in pure mathematics at McGill University in Quebec and Macquarie University in Sydney and has significant experience in the development and management of quantitative based investment strategies.

The portfolio of investments and the assets of the Support Trust will be overseen by an Investment Committee (IC). The IC comprises five members (including Paddy McCrudden) and is required to meet at least twice a year. It is expected that the IC will meet more frequently than this. The IC members are detailed in the below table.

The Fund will invest in a portfolio of securities that represents a blended portfolio of two investment strategies managed by Magellan. The investments of these two strategies are determined by the dedicated investment teams, which are stable and experienced. The key members of the investment team for the respective strategies are detailed in the below table.

Key Investment Team Members		
Name	**Position**	**Experience**
FPAY		
Paddy McCrudden	Portfolio Manager & Head of Retirement Solutions and Data Science	Paddy joined Magellan in 2017 in his current position. Prior to joining Magellan, Paddy worked at BlackRock for 16 years. From 2015 to 2017, Paddy was based in New York where he led a team building quantitative models for global equities and worked as the lead strategist for active equities. From 2010 to 2015, Paddy was the Head of Portfolio Management for Australian equities, overseeing index, active and long-short funds. Prior to this he was a Portfolio Manager and trader in a team responsible for multi-asset portfolios.
FPAY IC		
Domenico Giuliano	Deputy CIO & Portfolio Manager	Domenico joined Magellan in 2007 with responsibility for research coverage of the Financials sector. In 2011, Domenico was promoted to Portfolio Manager, working closely with the CEO/CIO on investment strategy and portfolio management of the Global Equity strategies. In December 2014, Domenico was promoted to Deputy Chief Investment Officer. In this expanded role, Domenico has primary responsibility for coverage, investment strategy and product development while continuing to cover financial stocks. Prior to Magellan, Domenico spent 11 years in a variety of investment and actuarial roles. Domenico joined Magellan from Morgan Stanley, where he was an executive director with responsibility for leading sector coverage of insurance companies for Asia Pacific. Domenico has also worked as a consultant with Tillinghast Towers Perrin, working across a wide span of assignments through posts in its Melbourne, Milan and Sydney offices. Domenico holds a Master of Business Administration from the Australian Graduate School of Management and a Bachelor of Economics from Macquarie University, and is a Fellow of the Institute of Actuaries of Australia.
Arvid Strimann	Head of Macro & Portfolio Manager	Arvid joined Magellan in 2014 as a Senior Analyst in the Financials Team. In 2017, Arvid was appointed Head of Macro Research and chairs the Macro Committee. In 2018, he was made a Portfolio Manager. Prior to Magellan, Arvid spent 10 years in the research departments of Morgan Stanley and UBS, covering financial institutions and economics. Previously, Arvid assisted insurers with their growth strategies at Aon and spent four years in the Reserve Bank of Australia's economics and financial markets groups. Arvid holds a Bachelor of Economics (First Class Honours) from the Australian National University and is a CFA Charterholder.
Brett Cairns	CEO	Brett Cairns became the CEO of Magellan Financial Group in 2018. From 2015 to 2018, Brett was Executive Chairman of Magellan, having been Non-Executive Chairman of Magellan Financial Group since 2013 and having served on the boards of Magellan Financial Group and Magellan Asset Management since 2007. Brett was formerly co-head of the capital markets group within structured finance at Babcock & Brown, which he joined in 2002. Brett was also a former managing director and head of debt capital markets for Merrill Lynch in Australia, where he worked from 1994 to 2002. Prior to Merrill Lynch, Brett spent three years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group. Brett holds a Bachelor of Economics (First Class Honours), a Doctor of Philosophy and a Master of Business Administration from the University of Sydney.
Gerald Stack	Head of Investments, Head of Infrastructure & Portfolio Manager	Gerald joined Magellan in 2007 and is Head of Investments and leads the team responsible for managing Magellan's infrastructure portfolios and providing research coverage of companies within the infrastructure, transport and industrials sector. Prior to joining Magellan, Gerald was a director of Capital Partners (now known as CP2) where he was head of securities research and a member of the management and investment committees. Gerald has extensive experience in the analysis and investment management of listed and unlisted debt, equity and hybrid assets on a global basis. Gerald holds a Bachelor of Economics and a Master of Business Administration, both from Sydney University, and is a Chartered Accountant. Gerald chairs Magellan's Investment Committee.

Key Investment Team Members		
Name	**Position**	**Experience**
Underlying Investment Strategies		
Hamish Douglass	Chairman, CIO & Lead Portfolio Manager Global Equity Strategies	Hamish is Co-Founder, Chairman and Chief Investment Officer of Magellan Financial Group, and Lead Portfolio Manager of Magellan's Global Equity strategies. Hamish is a former member of the Australian government's Financial Literacy Board, the Australian government's Takeovers Panel, the Australian government's Foreign Investment Review Board and the Forum of Young Global Leaders – World Economic Forum. Hamish is a Director of the Victor Chang Cardiac Research Institute.
Gerald Stack	Head of Investments, Head of Infrastructure & Portfolio Manager	See above.

UNDERLYING INVESTMENTS

The Manager will invest capital raised in a portfolio of securities that represents a blended portfolio of two Magellan investment strategies: (1) Magellan Global Plus strategy (50%-60%); and (2) Magellan Core Infrastructure strategy (40%-50%). The two strategies were selected to offer a combination of growth and defensive style investments. The Manager with approval from the IC has the ability to expand the portfolio to include other investment strategies at their discretion.

We note that the below mentioned management fees and performance fees are not relevant for the Fund. FPAY investors will incur a management fee of 1.0% of the portfolio value of the Fund and no performance fees.

Underlying Investments of FPAY		
Fund/Strategy	Magellan Global Plus Strategy	Magellan Core Infrastructure Strategy
Inception Date of Strategy	1 July 2013	17 December 2009
Investment Objective	To achieve attractive risk-adjusted returns over the medium-to-long term while reducing the risk of permanent capital loss.	To achieve attractive risk-adjusted returns over the medium-to-long term while reducing the risk of permanent capital loss.
Return Objective	A minimum gross return of 10%p.a over a business cycle.	To generate a minimum gross return of CPI + 5% p.a. through the economic cycle.
Management Fee (p.a)	1.35%	0.50%
Performance Fee	10% of excess returns above the higher of the MSCI World NTR Index and the Australian 10-year Government Bond Yield, subject to a High Water Mark.	na

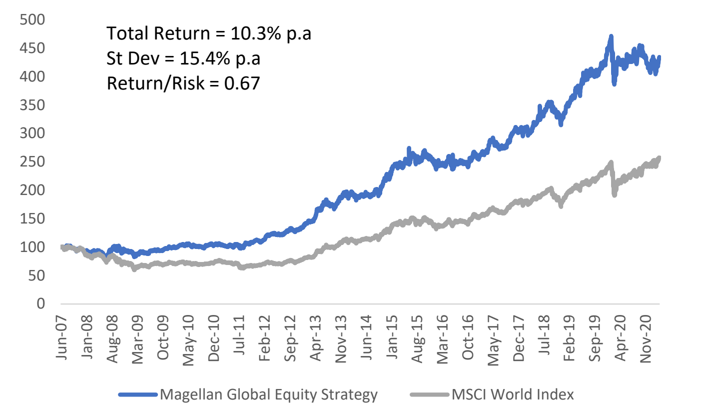
1) Magellan Global Plus Strategy

The Magellan Global Plus strategy is a subset of the Magellan Global strategy, the difference being that investments have a minimum market capitalisation of US$25b. This compares to the Magellan Global strategy which has a minimum market capitalisation of US$10b. There is significant cross over of the two strategies with approximately 94% of stocks in the investable universe having a market capitalisation of >US$25b.

The objective of the strategy is to achieve attractive risk-adjusted returns over the medium-to-long term, while reducing the risk of permanent capital loss.

The strategy provides exposure to a concentrated portfolio global equities. Note that the below performance chart shows the performance of the Global Equities strategy, which was established in June 2007. There is significant overlap between the portfolios of the two strategies.

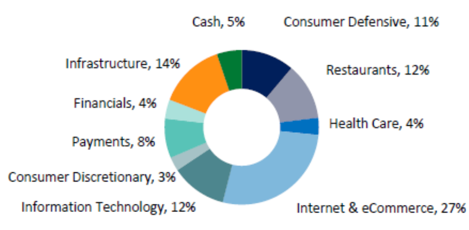
Magellan Global Equity Strategy Performance History (NAV + Distributions)



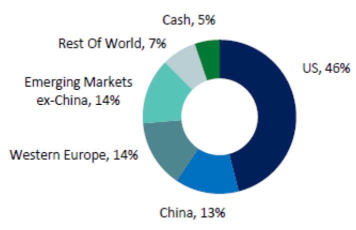
Top 10 Holdings (as at 31 March 2021)

Company	Portfolio Weighting
Microsoft Corporation	7.3%
Alphabet Inc.	5.9%
Facebook Inc.	5.8%
Starbucks Corporation	5.5%
Alibaba Group Holding Ltd	5.1%
Tencent Holdings Ltd	5.0%
Visa Inc.	4.4%
Netflix Inc.	4.3%
Reckitt Benckiser Group	4.2%
Pepsico Inc	4.1%
	51.6%

Sector Exposure (as at 30 April 2021)



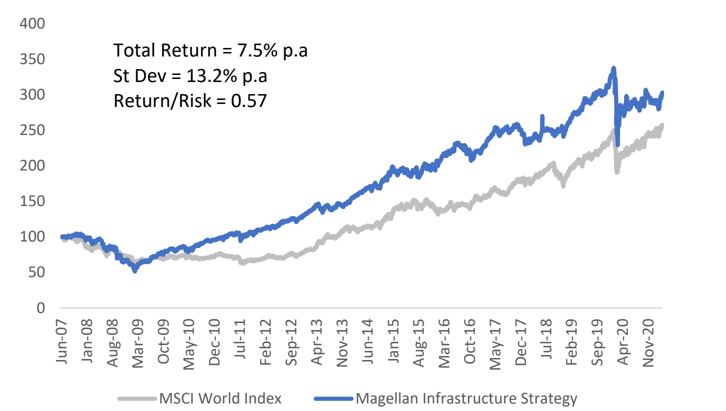
Geographical Exposure (as at 30 April 2021)



2) Magellan Core Infrastructure Strategy

The Core Infrastructure strategy has been running since December 2009. The strategy provides exposure to a diversified portfolio of global infrastructure securities. We note a more concentrated version of the Global Infrastructure strategy has been running since 2007 and represents the returns prior to December 2009 in the below chart.

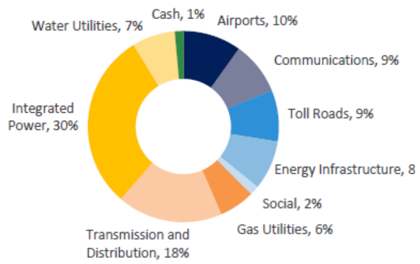
Magellan Core Infrastructure Strategy Performance History (NAV + Distributions)



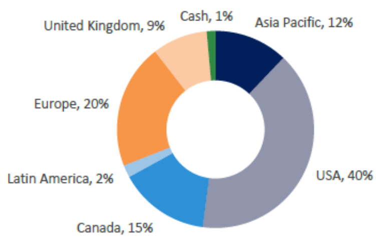
Top 10 Holdings (as at 31 March 2021)

Company	Sector	Portfolio Weighting
Cellnex Telecom SA	Communications	3.3%
Fortis Inc	Transmission and Distribution	3.0%
Enbridge Inc	Energy Infrastructure	2.9%
Transurban Group	Toll Roads	2.9%
TC Energy Corporation	Energy Infrastructure	2.9%
National Grid PLC	Transmission and Distribution	2.9%
Vinci SA	Toll Roads	2.7%
Sydney Airports	Airports	2.4%
American Tower Corporation	Communications	2.2%
Aena SME SA	Airports	2.2%
		27.4%

Sector Exposure (as at 30 April 2021)



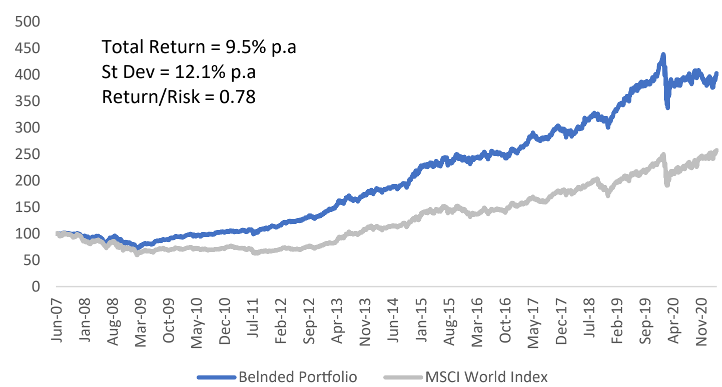
Geographical Exposure (as at 30 April 2021)



Blended Strategy

The Manager will seek to invest the assets of the portfolio (excluding the Support Trust) into a portfolio of securities that represents a blend of the two Magellan investment strategies detailed above. 50-60% will be invested in the stocks in the Magellan Global Plus strategy and 40-50% in the Magellan Core Infrastructure strategy. The below shows the historical gross performance of the portfolio with a 60% weighting to the Magellan Global Plus strategy and a 40% weighting to the Magellan Core Infrastructure strategy. We note prior to December 2009, the Infrastructure exposure reflects the more concentrated Magellan Infrastructure strategy.

Underlying Investments Performance History (60/40 Blended Strategy)



PERFORMANCE ANALYTICS (RICE WARNER ANALYSIS)

Summary of Performance Analysis

The Fund is newly created and has no performance history. This will be the first product of its type issued by the Manager and therefore there is no comparative performance to refer to. However, the Fund will invest in two established Magellan strategies as detailed in the above section.

The Manager commissioned Rice Warner to undertake an independent analysis of the potential outcomes of the Fund given the reserving strategy employed. The key outcomes of the analysis include:

- The value of the Fund is expected to increase over the long-term given the mean annual return is expected to be greater than the distribution amount.
- The scaled reserving strategy based on the value of the Support Trust as a proportion of the value of the Fund provides investors income protection during down markets and the benefit of capital growth during strong markets.
- The Reserve Ratio is expected to range between 10% to 20% based on the assumptions used. Between 0%and 25% of excess NAV returns above the Inflation Index Value are expected to directed to the Support Trust with this Reserve Ratio range. As such, the reserving strategy will detract from the long-term capital growth of the portfolio of securities. Investor's forego some capital returns to receive a steady, inflation-adjusted distribution irrespective of the portfolio performance. This is of particular value during periods of underperformance of the portfolio or weak markets.
- The reserving strategy adds value in lower return scenarios with the use of payments from the Support Trust to contribute to distributions (either partially or fully) during underperformance by the portfolio of securities allowing for the preservation of invested capital and allowing for the capital to take full advantage of stronger markets.

Simulated Performance Analysis

The Manager engaged Rice Warner to undertake an analysis of the simulated performance of the Fund based on a number of assumptions. In the absence of performance history, we have provided the key takeaways of the Rice Warner analysis with respect to the Fund.

We note that we have not looked at the impact of FPAY as part of an investor's broader portfolio (a key aspect of the Rice Warner analysis) and understand that for those in the retirement phase that may be seeking to invest in FPAY there are a number of other considerations that are required to be taken into account. The purpose of this analysis is not to provide advice on portfolio construction. We advise that investors contact their Financial Advisor for advice regarding investment and portfolio construction requirements.

Key Assumptions

The below table highlights the key assumptions used by Rice Warner in their analysis. We note that the actual volatility and returns may differ from the assumptions used. The analysis is not meant to be a forecast of the actual returns of the Fund but merely to simulate the likely performance of the Fund given the set of assumptions used.

While not included in the below table, Rice Warner also included assumptions regarding transaction costs, which are expected to be elevated given the design of the Fund and the movement of capital between the portfolio of securities and the Support Trust. Full details of the assumptions used by Rice Warner can be found in the report which is provided on the Magellan FuturePay website.

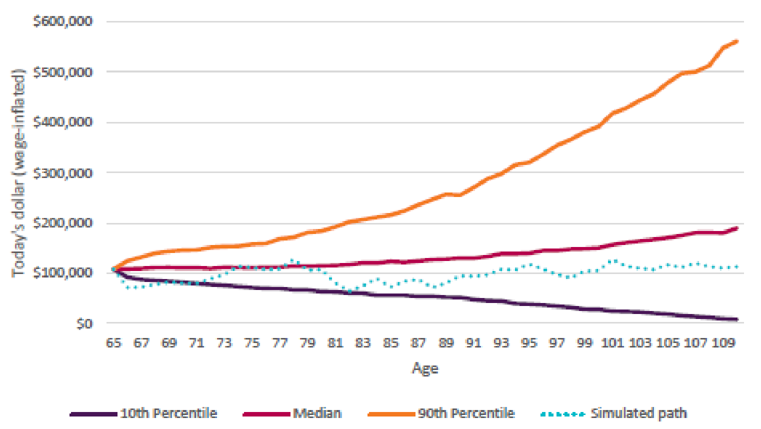
Key Assumptions Used			
Number of Years Invested	45	Expected Annual Return:	
Initial Investment	$100,00	Magellan Global Plus	10.43%
Initial Dividend Yield	4.25%	Magellan Core Infrastructure	10.24%
Adequacy Contribution	4.25%-7.5%*	Blended Return (60/40)	10.35%
Consumer Price Inflation	2.2%	Expected Annual Volatility:	
Wage Inflation	3.2%	Magellan Global Plus	16.0%
		Magellan Core Infrastructure	12.0%
		Blended Volatility (60/40)	14.4%

*The minimum Adequacy Contribution of 4.25% was removed from the product after the Rice Warner analysis was complete. There is no minimum Adequacy Contribution.

Simulated Performance Outcomes

On average, the portfolio value of FPAY is expected to grow over time. This is to be expected given the mean annual return is expected to be greater than the inflation-adjusted income requirements of the Fund. In the bottom 10% of the simulations, the portfolio value was eroded, while in the top 10% of the simulations the portfolio performed strongly. The results from the analysis by Rice Warner are provided in the below graphic.

Net Present Value of FPAY Portfolio Value

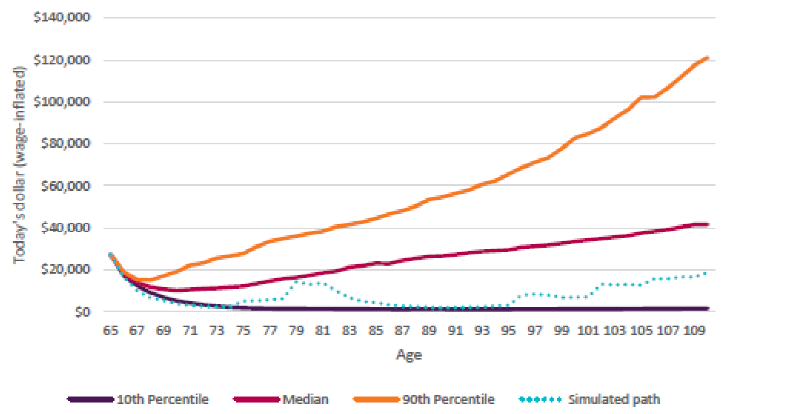


Source: Rice Warner Review of Retirement Solution, 5 May 2021.

Given the mean annual return is expected to be greater than the inflation-adjusted income requirements, the value of the Support Trust is expected to grow over time as a portion of capital invested and excess returns are directed to the Support Trust. Assuming an individual invested $100,000 in FPAY, the below represents the simulated value of the Support Trust in today's dollars. The below analysis assumes 4.25%-7.5% of the capital invested is directed to the Support Trust upon unit issuance (Adequacy Contribution) and incorporates the value of the investor's share of the $50m contribution from the Magellan Group. The investor's share of the Magellan Group contribution declines over time as the pool of funds increases. We note that the minimum Adequacy Contribution of 4.25% no longer applies to the product and the analysis assumes that the $50m contribution for Magellan is provided to the Support Trust at the commencement of its trading. In practice, the Magellan contribution will be provided as new units are issued to ensure the Reserve Ratio isn't diluted upon the issue of new units in the initial years.

The analysis shows that on average, the value of the Support Trust (in today's dollars) is expected to grow over time. We note that the decline in the initial years is primarily due to the dilution of the Magellan contribution as new units are issued and the Fund grows in size. Rice Warner's analysis determined that the initial years is where investors benefit the most from the $50m contribution from the Magellan Group to absorb poor performance of the portfolio in the initial years.

Net Present Value of Support Trust



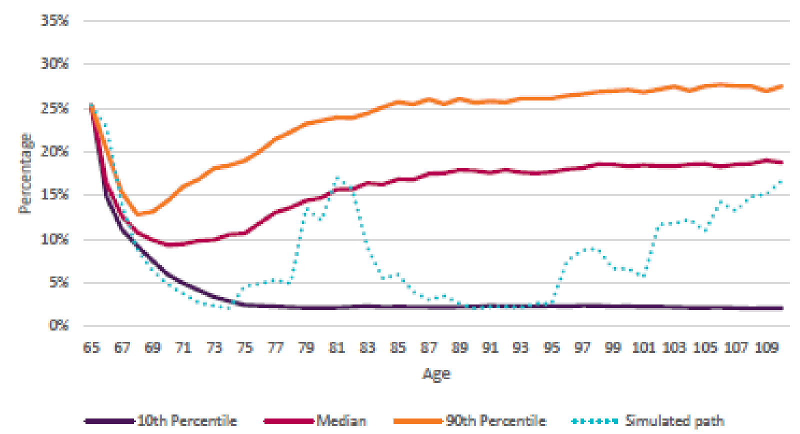
Source: Rice Warner Review of Retirement Solution, 5 May 2021.

The Manager is using a scaled approach to the reserving strategy, in which a greater amount of excess returns are reserved when the Support Trust is low and a smaller amount of excess returns are reserved when the value of the Support Trust is higher. The scaled approach allows for investors to partake in a greater amount of upside from the portfolio value when markets are performing well but ensures that the Support Trust is well funded for protection against weaker markets.

The Reserve Ratio of the Fund is expected to range between 10%-20% for the life of the Fund based on the Rice Warner analysis. When the Reserve Ratio is between 10-20%, it is expected that between 0% and 25% of the excess NAV above the Inflation Index Value will be directed to the Support Trust.

As shown below in the lowest 10% of simulations, the Reserve Ratio will be lower in which case a greater portion of excess returns will be directed to the Support Trust to ensure the distribution requirements can be met. It should be noted that under these circumstances the Support Trust will be valuable to investors as they will likely be reliant on contributions from the Support Trust for distributions.

Simulated Reserve Ratio (including $50m Magellan Contribution)



Source: Rice Warner Review of Retirement Solution, 5 May 2021.

Value Add of Reserving Strategy

The Rice Warner analysis concluded that the reserving strategy employed by FPAY provides additional value to investors. Rice Warner simulated the performance of the FPAY portfolio of securities with and without the reserving strategy. The analysis determined that the reserving strategy added value to an investor due to the investor using the reserves (Support Trust) to pay distributions instead of selling down the portfolio holdings in weak markets and reducing the capital invested.

In addition to providing a stable income stream, the reserving strategy acts to preserve the capital invested in the portfolio of securities, reducing the erosion of the capital value during weak markets. This is a key aspect of the Fund. Investors will be mutualising a portion of their investment and some of the excess returns of the portfolio in order to preserve invested capital in weak markets.

APPENDIX A – SINGLE UNIT (DUAL REGISTRY) STRUCTURE

How Does the Single Unit Structure Work?

When an investor buys units in a fund off-market, the investor completes an application form and submits it to the fund's registry. Once the submission is processed, the investor is issued with a Securityholder Reference Number (SRN).

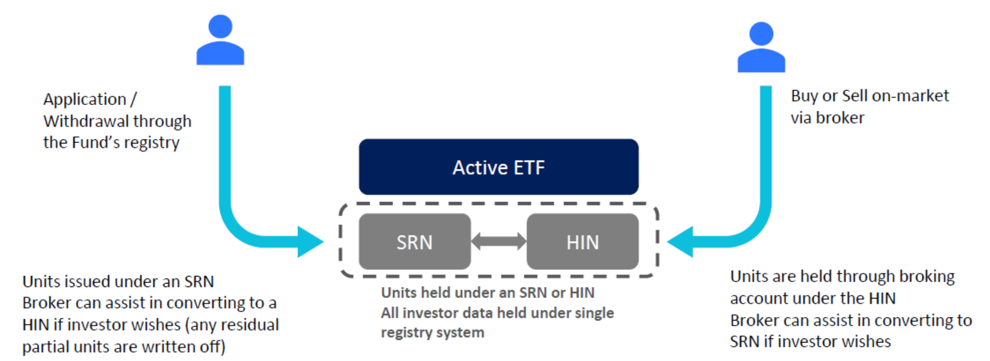
When an investor buys units in a fund on-market, the investor submits a purchase order with a stockbroker or online trading account. Once the transaction has been cleared, the units are settled to the investors Holder Identification Number (HIN).

Under the Single Unit Structure, when an investor wants to exit the fund, they have the choice of either selling on the stock exchange or redeeming directly with the fund via the unit registry. When selling on the stock exchange, a stockbroker will generally require that the units are held on a HIN associated with that stockbroker and the settlement occurs in a similar manner to the purchase of units on the stock exchange. If units are held on a SRN, the stockbroker will generally require the investor to convert their holding from a SRN holding to a HIN holding to ensure that the stockbroker has control over the units and doesn't have any issues settling the sale.

If an investor wants to redeem units directly with the unit registry, the investor will need to ensure that the units are held on a SRN. The unit registry cannot redeem units that are held on HIN as the stockbroker associated with that HIN controls the units. The investor needs to contact their stockbroker and asked for their holding to be converted from their HIN to a SRN (detailed in the below graphic).

Do I have to change the way I trade the units? No. We would expect most unitholders to buy and sell units through the same method, either off-market or on-market. Under this structure, the option to change is available, however, the key benefit to investors is that all investors can gain access to the same fund using their preferred method of transaction.

How to Buy & Sell Units in a Fund with a Single Unit Structure



Source: Magellan Financial Group

On-Market Transactions

Units can be purchased through a broker or online trading account through Chi-X. Investors buying and selling units on-market will incur a brokerage fee in addition to a spread on the NAV. There are no minimum investment amount requirements when acquiring units on-market, therefore access via this method may suit those that are acquiring units on a regular basis, such as part of a savings plan, or are looking to invest less than the minimum investment amount required for an unlisted fund at any given point in time. When buying units on-market, trades can be executed throughout any given trading day.

Off-Market Transactions

If an investor chooses to acquire units directly from the RE, a minimum investment amount $10,000 is required.

To acquire units off-market an investor must make an application directly to the Responsible Entity. If an investor submits a valid application for units in a fund by the cut-off time on any given business day and transfers the application money to the fund's application trust account, units in the fund will be issued the following business day at the NAV per unit at the close of the previous trading day. Investors will incur a spread upon entry and/or exit, which will vary depending on the terms and conditions of the fund.

Investors can expecte to receive payments of withdawls within 7 business days after the withdrawal has been aceepted.

It's important to note that while the Single Unit Structure gives investors access to the same fund through multiple access points, the outcome for investors may differ depending on which path is taken. On-market investors can trade the units throughout the day, whereas off-market investors will receive the unit price as at the end of the relevant business day, depending on when the purchase/redemption request is received. This will impact the return to investors. The difference in the price received will likely have a greater impact for active investors than for long-term investors, unless there is a significant event during any given day.

The costs involved with a transaction will also differ. On-market transactions will receive the market price, which is typically a spread on the NAV and brokerage fees. Off-market transactions will incur the buy/sell spread associated with the fund. These costs may differ and have an impact on the return generated.

What is the iNAV?

A key feature of an ETMF is the iNAV. The iNAV is required to be provided by issuers and provides a regular updated asto the value of the portfolio during the trading day. The iNAV is priovided on an issuer's website.

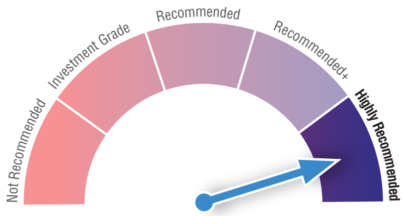
Why Should I Refer to the iNAV Before I Invest? Investors should always take the time to check the iNAV of an ETMF before investing as this is the indicative value of the NAV at any given point in time and therefore provides investors the price at which they should be buying or selling. In the event that the market price (price quoted on the ASX or Chi-x) is above the iNAV plus the spread, investors should consider purchasing directly with the Responsible Entity to ensure they are not "overpaying" for an investment. This is one of the benefits of the Single Unit (dual registry) Structure, investors have the option to either buy on-market or direct through an application with the Responsible Entity.

APPENDIX B – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

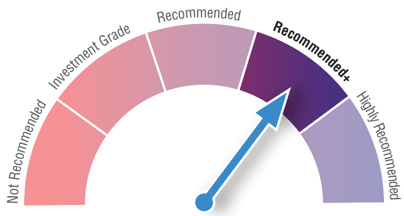
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**



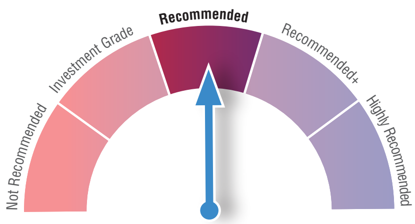
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	**79–83**



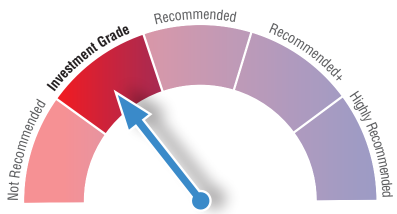
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	**70–79**



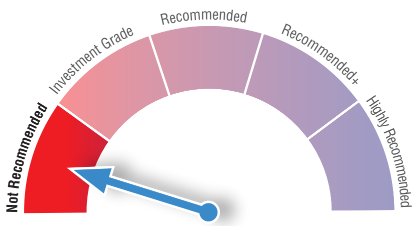
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	**60-70**



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	**<60**

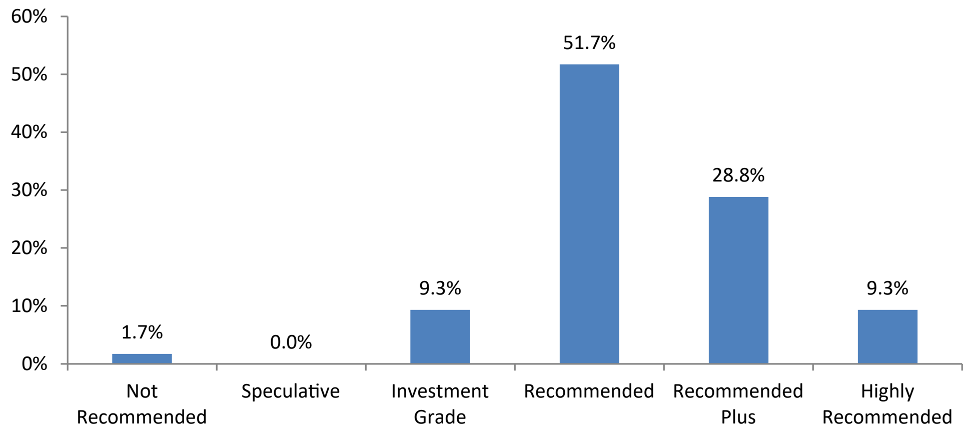


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX C – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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