Strategy Update: 30 June 2015

Magellan Core Infrastructure

Key Facts

Portfolio Managers	Gerald Stack & Dennis Eagar
Inception Date	17 December 2009
Total Infrastructure Assets[1]	AUD $5,365.7 million
Total Core Infrastructure Assets	AUD $4,053.5 million

AUD Hedged Gross Performance[2]

	Composite	Index[3]	Excess Return
3 Months (%)	-4.0	-3.0	-1.0
6 Months (%)	-1.2	1.2	-2.4
1 Year (%)	9.3	7.5	1.8
3 Years (% p.a.)	16.7	15.3	1.4
5 Years (% p.a.)	18.5	13.5	5.0
Since Inception (% p.a.)	16.6	11.1	5.5

	Composite	Index[3]	Excess Return
2009* (%)	1.9	0.9	1.0
2010 (%)	15.9	5.7	10.2
2011 (%)	15.6	4.7	10.9
2012 (%)	16.3	9.1	7.2
2013 (%)	16.7	18.5	-1.8
2014 (%)	28.0	22.9	5.1
2015 (CYTD)*	-1.2	1.2	-2.4

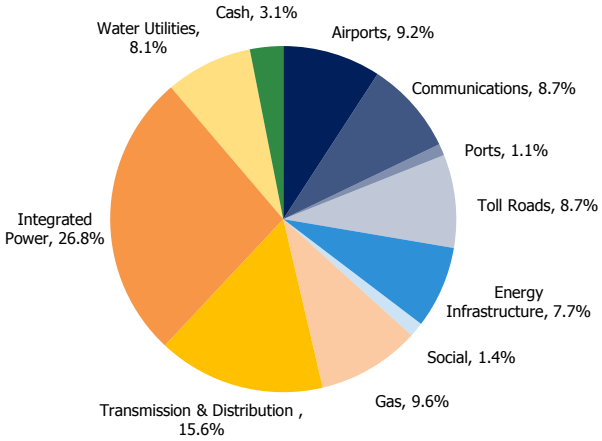
AUD Hedged 5 Year Risk Measures[2]

	Against Benchmark[3]	Against Global Equities[5]
Upside Capture	1.1	0.7
Downside Capture	0.5	-0.1
Beta	0.8	0.3
Correlation	0.9	0.5

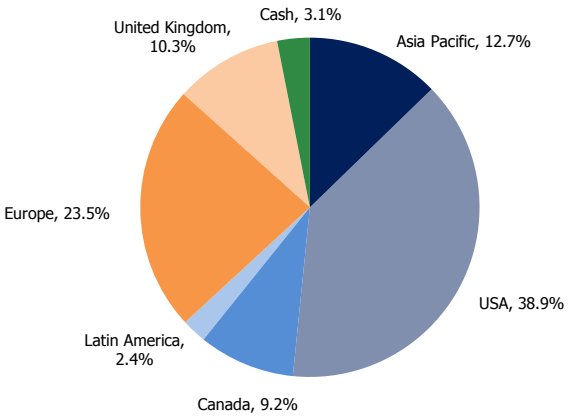
Top 10 Holdings[4]

	Sector	%
SES GDR	Communications	3.0
Abertis	Toll Roads	3.0
Power Assets Holdings	Integrated Power	2.9
Transurban Group	Toll Roads	2.9
Enbridge Inc	Energy Infrastructure	2.9
National Grid PLC	Transmission and Distribution	2.8
TransCanada Corp	Energy Infrastructure	2.8
United Utilities Group Plc	Water Utilities	2.5
Red Electrica De Espana SA	Transmission and Distribution	2.3
Snam Rete Gas SpA	Gas Utilities	2.3
	TOTAL	27.3

Industry Exposure by source of revenue[4]



Country Exposure by Domicile of Listing[4]



[1] Comprised of the total Firm Infrastructure assets, comprising the Select Infrastructure strategy and Core Infrastructure strategy.
[2] Returns and risk measures are for the Global Core Infrastructure Hedged in AUD Composite.
[3] The Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index NTR Index and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index.
[4] The exposures are by domicile of listing. It is the Strategy's intention to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian Dollars.
[5] The Global Equity Index is the MSCI World (AUD Hedged) Net Total Return.
* Returns are only for part year.

Performance

During the June 2015 quarter, in Australian dollar terms, the Magellan Core Infrastructure Strategy (the 'Strategy') returned -4.0% before fees. This was 1.0% under the benchmark return of -3.0%. This brought the 1 year return to 30 June 2015 for the Strategy to +9.3%, 1.8% better than the benchmark return of +7.5%.

The negative return for the quarter was largely the result of the market's reaction to the crisis in Greece. The Strategy's units fell by more than 3% in the last five trading days of the quarter. We strongly believe that the market had been irrational, particularly regarding the very high quality, defensive holdings in the Strategy and we expect those stocks to recover going forward. Indeed, the Strategy recovered over 1.5% in the first trading day of July. Notwithstanding, the quarter also saw a selloff in US Utilities as the prospects of a rise in interest rates in the US increase. The Airports sector was the only positive area in the Strategy during the quarter, returning 4.2%. All other sectors and regions performed poorly during the quarter. The best performing stocks during the quarter were all airports stocks being Mexican airports GAPB (TSR of +10.5%), ASURB (+9.0%), OMAB (+7.6%), and Auckland Airport (+9.6%). The worst performing stocks were toll road company OHL Mexico (-28.9%), and US Utilities PNM Resources (-14.9%), ITC (-13.6%), Empire District Electric (-11.1%) and Vectren (-11.1%).

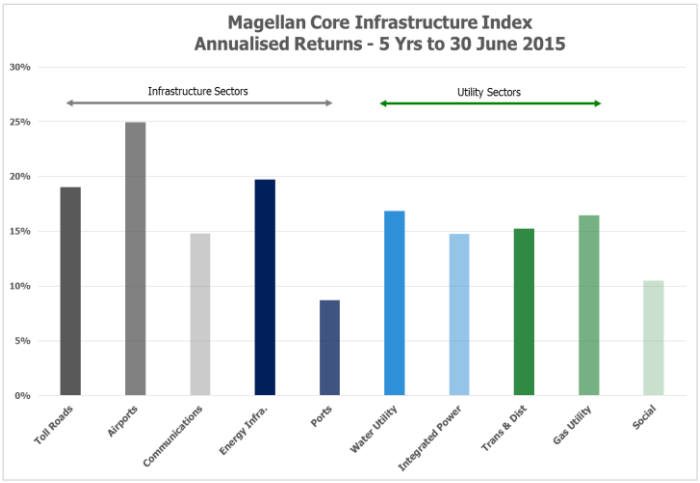
During the quarter, there were divergent returns from stocks included in commonly used benchmark indices but excluded from Magellan's universe of investable stocks. On the positive side, Japanese Power Utilities were up over 24% for the quarter, Japanese Rail Companies were up over 13%, Chinese Infrastructure stocks increased by an average of 18% and Brazilian stocks were up over 7%. In contrast, US rail companies were down over 12%, US competitive energy businesses declined by an average of 5% and US Oil & Gas MLPs were down an average 4%.

A Reflection on the Last Five Years

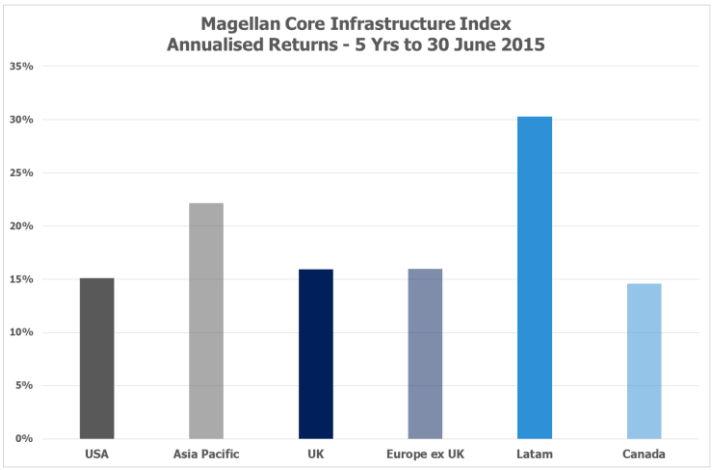
As we have discussed previously, there is no universally agreed definition of what is or is not an infrastructure asset. Therefore, every manager needs to define their investment universe as the first step in building a portfolio. Magellan uses what most asset consultants and research houses judge to be the most conservative definition of the term infrastructure of all listed infrastructure managers globally. Magellan refers to the universe of stocks meeting our definition as the Magellan Core Infrastructure Index. The following analysis uses the performance of stocks included in this index to review the key trends in the last five years.

Over the last 5 years, the Magellan Core Infrastructure Index returned 18.4% per annum gross of before fees (compared to a gross before fee return from the Magellan Infrastructure Strategy of 19.8% per annum). The following graph shows returns by sector over this period (which we calculate by taking the average local currency return of the stocks in that sector). The key observations to be made from this data are:

- As we would expect, the returns from the Utility sectors were more consistent than the non-Utility sectors
- The higher returning non-Utility sectors were led by the Airports sector which returned 25% pa over the period.



The next graph shows returns by region. Clearly, the Latin American returns, which are primarily driven by four Mexican airport companies, were outstanding while the Asia Pacific stocks also performed very strongly (note that we only include developed markets in the Asia Pacific region). It is worth noting that, despite the ongoing economic problems in Europe, stocks from that region performed in line with the US, UK and Canada.



In terms of individual stock performance:

- The best performing stock was Mexican airport company OMAB with a TSR of 38.5%;
- 5 of the 6 best performing stocks were airports;
- Pleasingly, only one stock of the 86 stocks in the index delivered a negative return over the five year period.

Finally, one of the key reasons that investors choose to include global listed infrastructure in their asset allocation is to diversify their exposures from global equity markets. One of the key criteria used to measure how effective an investment is at risk reduction and diversification is called 'Downside Capture'. This measures how the investment performs when equity markets go down. An analysis of performance over the five years to 30 June 2015 shows that

the Magellan Core Infrastructure Index downside capture ratio was -0.1 (and indeed the Strategy achieved the same result). This means that, on average, the index delivers investors a positive return when global equity markets fall.

Outlook and Strategy

The Magellan Core Infrastructure Strategy seeks to provide investors with attractive risk-adjusted returns from the infrastructure asset class. It does this by investing in a portfolio of listed infrastructure companies that meet Magellan's strict definition of infrastructure at discounts to their assessed intrinsic values. We expect that the Magellan Core Infrastructure Strategy should provide investors with real returns of approximately 5% to 6% over the longer term.

We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, given the predictable nature of earnings and the structural linkage of those earnings to inflation, the investment returns generated by infrastructure assets are different from standard asset classes and offer investors valuable diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them particularly attractive and an investment in listed infrastructure can be expected to reward patient investors with a three to five year timeframe.

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Performance is compared to the Global Infrastructure Benchmark which comprised of the following: from inception to 31 December 2014, the benchmark is UBS Developed Infrastructure & Utilities Index NTR Index (Hedged to AUD) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (Hedged to AUD). Both indices are market capitalisation weighted indices that are 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.

GIPS® DISCLOSURE

Magellan 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 Magellan. The Magellan Core Infrastructure Hedged to AUD composite is a global Strategy investing in strictly defined or "pure" infrastructure companies (typically 80-120). To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns. A list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing 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. Industry and Geographical Exposures are calculated on a look through basis based on underlying revenue exposure of individual companies held within the portfolio.