Magellan Select Infrastructure

Key Facts

Portfolio Manager	Dennis Eagar / Gerald Stack
Inception Date	1 July 2007
Total Infrastructure Assets[1]	AUD $4,816.1 million
Composite Size[2]	AUD $713.1 million

AUD Hedged Gross Performance[2]

	Composite (%)	Index (%)[3]	Excess Return (%)
1 Month	2.7	1.0	1.7
3 Months	8.7	6.6	2.1
6 Months	9.7	6.2	3.5
1 Year	24.0	22.9	1.1
2 Years (% p.a.)	21.5	20.7	0.8
3 Years (% p.a.)	19.9	16.7	3.2
5 Years (% p.a.)	17.0	11.9	5.1
7 Years (% p.a.)	9.0	4.9	4.1
Since Inception (% p.a.)	8.8	5.5	3.3

AUD Hedged Gross Performance – Calendar Year[2]

	Composite (%)	Index (%)[3]	Excess Return (%)
2007	2.7	6.5	-3.8
2008	-33.4	-27.5	-5.9
2009	25.5	10.0	15.5
2010	13.0	5.7	7.3
2011	12.4	4.7	7.7
2012	16.8	9.1	7.7
2013	19.1	18.5	0.6
2014	24.0	22.9	1.1

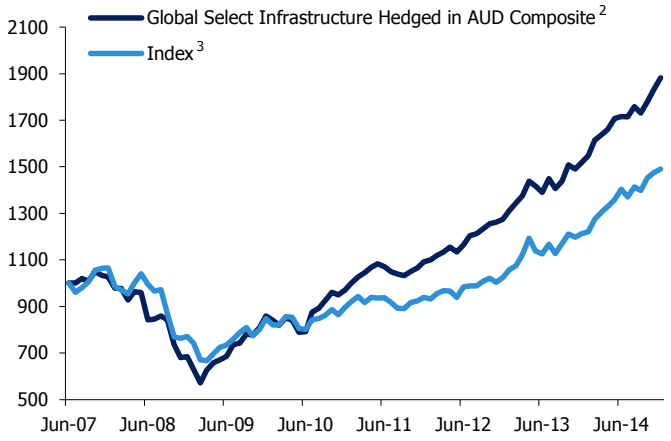
AUD Hedged Risk Measures Since Inception[2]

Upside Capture	0.93
Downside Capture	0.68
Beta	0.82
Information Ratio (% p.a.)	0.37
Tracking Error (% p.a.)	8.9%
Worst Drawdown - Composite	-45.6%
Worst Drawdown - Index	-37.4%

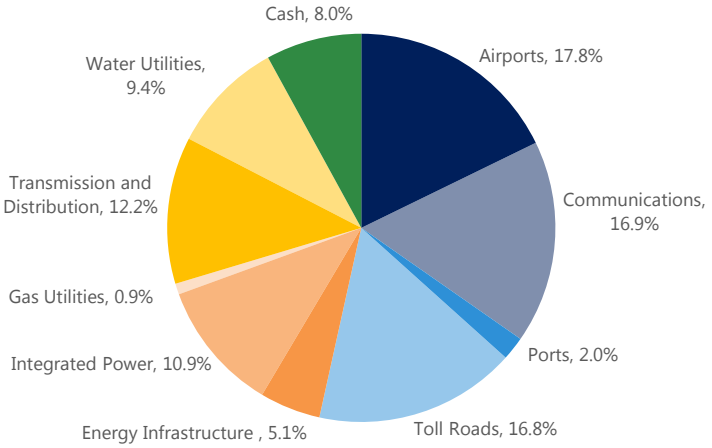
Top 10 Holdings[4]

		% of Strategy
Transurban Group	Toll Roads	8.6
Crown Castle International Corp	Communications	6.5
National Grid Plc	Transmission and Distribution	6.3
SES	Communications	6.2
Atlantia Spa	Toll Roads	6.0
Enbridge Inc	Energy Infrastructure	5.1
Flughafen Zeurich AG	Airports	4.6
Sydney Airport	Airports	4.4
Auckland International Airport	Airports	4.4
Fraport AG Frankfurt Airport Services	Airports	4.3

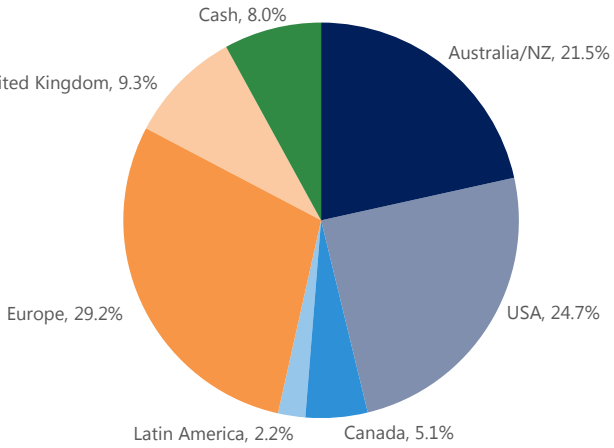
Performance Chart growth of AUD $1,000



Industry Breakdown



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 Select Infrastructure Hedged in AUD Composite. *Refer overleaf for further information.

[3] Index: UBS Developed Infrastructure & Utilities Net Total Return Index (Hedged to AUD). Source: UBS From 1 April 2015, the UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD) will no longer be available. Thus as of 1 January 2015, the index was changed to the S&P Global Infrastructure Index A$ Hedged Net Total Return.

[4] Representative Portfolio. ^Refer overleaf for further information.

Performance

During the fourth quarter of 2014, the Strategy returned 8.7% in Australian dollar terms, before fees, which was 2.1% better than the market benchmark (the UBS Developed Infrastructure & Utilities Net TR Index (Hedged to AUD)). For the year ended 31 December 2014, the Strategy returned +24.0%, 1.1% more than the market benchmark.

The Strategy's 6 best performing stocks were all US utilities. They included Southwest Gas (Total Shareholder Return (TSR) of +28.0%), Wisconsin Energy (+23.6%), Westar (+22.0%) and Northeast Utilities (+21.7%). Only 4 of the 28 stocks in the portfolio showed negative returns for the quarter, the worst being German airport company Fraport (-7.3%), Italian toll road company SIAS (-4.4%) and Italian electricity transmission company Terna (-3.8%).

In terms of the stocks included in commonly used infrastructure indices but excluded from the Magellan Infrastructure universe, Korean stocks performed poorly (-10.1%) as did Power Generation stocks (-3.8%), including Greece's Public Power Corp (-42.6%), the UK's Drax Group (-28.8%), US utility ONEOK (-23.3%) and Australia's Origin Energy (-22.0%). US & Canadian rail stocks provided an average TSR of +2.1%, while US Oil & Gas MLP's generated an average TSR of -11.5%.

During the period the portfolio was changed only marginally both from a sector and regional viewpoint.

Risks of Increasing Interest Rates

In our view, the major risk currently faced by infrastructure (and other asset classes) is the impact of a potential increase in bond yields.

The past six months has witnessed an increase in underlying interest rates as investment markets turned their focus to the prospect the Fed will end its Quantitative Easing programme ('QE') in the next couple of years. We expect interest rates to continue to rise over the medium term. Increasing interest rates represent a challenge for all investment classes and infrastructure, although better placed than many assets, is not immune from these risks. While prevailing interest rates have been well below historical averages since the global financial crisis, we do not believe that long-term infrastructure investors made their investment decisions during the period since the GFC based on prevailing interest rates, but on a higher, more historically normal level of interest rates. As a consequence, while increasing interest rates represent a risk for investors in infrastructure assets, we believe that the medium-to-long-term risk is not that interest rates rise from present levels rather that they rise materially above "normal" levels.

The risks posed by an increase in interest rates are somewhat different for utilities and infrastructure assets.

- ***Utilities:*** Utilities operate under a contract with their communities under which the utility provides a reliable, efficient service and invests for the future, in return earning a fair return on the capital invested in its operations. Utilities are not able to exploit their natural monopoly power, but they are protected from both the fluctuations of the economic cycle and changes in variables outside their control, such as interest rates. Ultimately, the key determinant of the level of returns generated by regulated utilities is the return approved by their regulators. An increase in interest rates should lead to an increase in the approved rate of return (so that the utility continues to be able to earn a fair return). However, a utility can suffer because of mismatches and lags between increases in interest rates and subsequent accompanying increases in approved regulatory returns. Regulatory rates of return have been sticky as interest rates have declined and we expect that there will also be stickiness as they rise.

- ***Infrastructure:*** Infrastructure assets typically have an ability to pass the effects of inflation through to consumers via the price of the infrastructure service (e.g. tolls on a toll road are normally linked to inflation). However, where an infrastructure asset is partially funded by debt, an increase in interest rates (that is not accompanied by an increase in inflation) can increase the cost of the debt (with a lag if the debt interest costs are hedged) and, therefore, reduce the returns available to investors.

One of the interesting effects of the GFC has been the significantly increased focus of debt markets on the reliability of the debt of high-quality infrastructure and utility assets. The companies in which we invest now have access to more sources of debt, longer term debt and significantly cheaper debt than pre-GFC. As a consequence, almost all of the companies in which we invest have the significant majority of their debt in fixed interest rate structures that will insulate them from any rise in interest rates in the shorter term.

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Performance is compared to the UBS Developed Infrastructure & Utilities Net Total Return Index (Hedged to AUD) which 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.

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 Select Infrastructure composite is a global strategy investing in strictly defined or "pure" infrastructure companies (typically 80-120). The composite is hedged to Australian dollars with Forward contracts. 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 selections 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 representative portfolio.