Strategy Update: 30 September 2015

Magellan Select Infrastructure

Key Facts

Portfolio Managers	Gerald Stack & Dennis Eagar
Inception Date	2 May 2013
Total Infrastructure Assets[1]	AUD $5,833.8 million
Total Strategy Assets	AUD $1,539.0 million

AUD Hedged Gross Performance[2]

	Composite	Index[3]	Excess Return
3 Months (%)	3.3	-5.3	8.6
6 Months (%)	0.5	-8.2	8.7
1 Year (%)	16.7	2.1	14.6
3 Years (% p.a.)	17.9	12.3	5.6
5 Years (% p.a.)	16.9	10.6	6.3
Since Inception (% p.a.)	8.9	4.4	4.5

	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 (5)	16.8	9.1	7.7
2013 (%)	19.1	18.5	0.6
2014 (%)	24.0	22.9	1.1
2015 (CYTD)*	7.4	-4.2	11.6

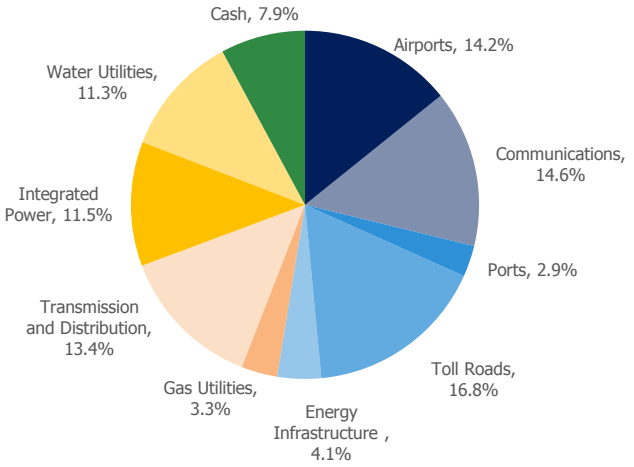
AUD Hedged 5 Year Risk Measures[2]

	Against Benchmark	Against Global Equities[5]
Upside Capture	1.0	0.7
Downside Capture	0.3	-0.1
Beta	0.7	0.4
Correlation	0.8	0.5

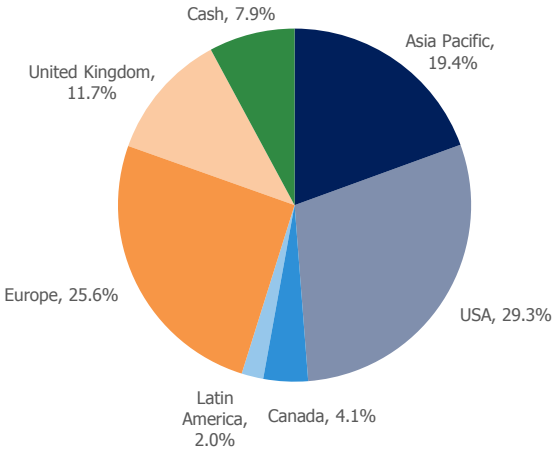
Top 10 Holdings[4]

	Sector	%
Transurban Group	Toll Roads	8.8
National Grid Plc	Transmission and Distribution	6.8
Crown Castle International Corp	Communications	6.1
SES	Communications	5.1
Atlantia Spa	Toll Roads	5.0
American Water Works Co Inc	Water Utilities	4.3
Enbridge Inc	Energy Infrastructure	4.1
ITC Holdings Corp	Transmission and Distribution	4.0
Sydney Airport	Airports	3.8
Flughafen Zeurich AG	Airports	3.5
	TOTAL	51.5

Industry Exposure[4]



Geographical Exposure[4]



[1] Total Firm Infrastructure assets comprises of the Select Infrastructure strategy and Core Infrastructure strategy.
[2] Returns and risk measures are for the Global Select Infrastructure Hedged in AUD Composite.
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 (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).
[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

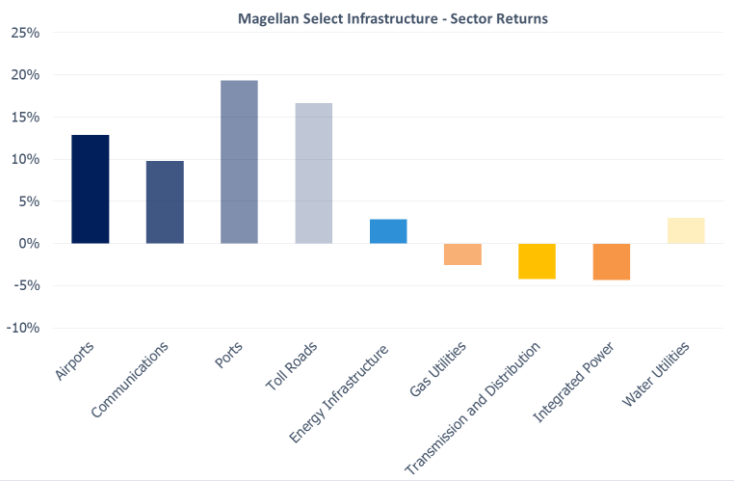
Over the September 2015 quarter, in AUD Hedged terms, the Strategy returned +3.3% before fees. This was 8.6% better than the benchmark of -5.3%. This brought the 1 year return to 30 September 2015 for the Strategy to +16.7% and the five year return to +16.9% per annum, 6.3% better than the benchmark return of +10.6% per annum. The Strategy also outperformed global equities over the year to 30 September 2015 with the MSCI World NTR AUD (hedged) index returning +1.2%.

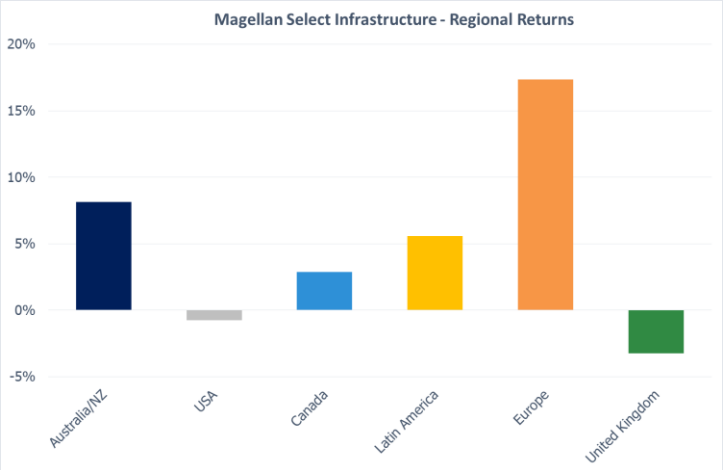
The result for the quarter was a reaffirmation of the importance of Magellan's conservative definition of what constitutes the infrastructure sector. The fall in global equity saw a flight to high quality defensive stocks such as those held by the Strategy. The other side of the ledger saw a sell-off of infrastructure stocks in emerging markets as well as stocks with material earnings exposure to commodity prices – stocks commonly found in benchmark infrastructure indices but excluded from Magellan's infrastructure universe.

The best performing stocks held in the Strategy were Macquarie Atlas Roads (Total Shareholder Return of +16.9%), US power utility WEC Energy (+9.6%), UK water utility United Utilities (+8.2%) and US power utility Eversource (+8.2%) and UK power utility National grid (+6.8%). Negative performance during the month were experienced by Zurich Airport (-11.9%), North American oil & gas pipeline companies Enbridge (-8.9%) and US tower company Crown Castle (-4.4%).

In regard to stocks included in commonly used infrastructure indices but excluded from Magellan's infrastructure investment universe, US oil & gas MLP pipeline companies were down an average 15.4% for the month with downturns also experienced by Chinese listed infrastructure stocks (-8.2%), Brazilian Infrastructure stocks (-4.1%), competitive power generation companies in the US (-3.6%) and Europe (-3.7%), Japanese rail companies (-6.9%) and Japanese energy utilities (-6.8%).

The Strategy's returns by sector and region are shown in the following graphs:





Listed infrastructure performance in volatile markets

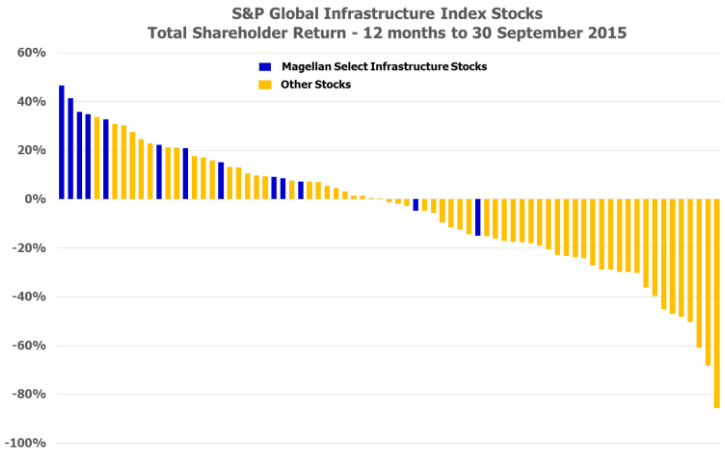
We've seen unsettled markets during the quarter as concerns about both growth and the broader outlook for China following their currency devaluation had a material impact on global markets, especially emerging markets who faced prospects of reduced demand for their products from China. The Federal Reserve also deliberated over the timing of anticipated interest rate increases in the US despite relatively positive data. While the underlying businesses in our investment portfolio shouldn't be affected by these events, it's inescapable that they impact investor confidence and have flow-on impacts into most investment universes.

One of the cornerstones of Magellan's investment philosophy is adhering to a disciplined and strict definition of infrastructure. For example: our infrastructure investment universe only includes businesses which have strong market positions; they have to be in countries and regulatory jurisdictions which are robust and which will honour the rule of law and the contract; regulatory frameworks must be transparent and ensure a fair return on capital; they can't have significant exposure to energy and other commodity price fluctuations.

While this results in a smaller infrastructure universe than many of the relevant benchmark indices and other infrastructure managers, it ensures performance behaviour much more consistent with the broad thesis around infrastructure; namely that true infrastructure businesses will continue to deliver solid operating performance and growth over the long term, and consequently in their stock price and total return performance.

While the past six weeks have been unsettling for many, it does provide an excellent opportunity to review the performance of infrastructure as tightly defined by us relative to other stocks in commonly accepted infrastructure indices. The performance narrative above clearly demonstrates the relative and absolute outperformance of the Strategy over the quarter, largely due to the disciplined definition of infrastructure which we apply.

Looking back over a slightly longer time frame of the past 12 months highlights this discipline and its results further. The graph below shows the performance of a selection of 75 stocks in the S&P Global Infrastructure Index with those stocks invested in by the Strategy highlighted in blue.



The graph highlights the benefits and results of our approach to definition, with most of the Magellan infrastructure investments resulting in positive shareholder returns and skewed towards the higher return end of the spectrum. Those individual stock performances have resulted in above benchmark and absolute outperformance across the Strategy over the year and the most recent quarter as outlined in the quarterly performance commentary above.

Outlook and Strategy

The Strategy remains consistent with previous periods and is not expected to change over the long term.

The 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 our strict definition of infrastructure. We expect that the 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 comprises 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 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. Both indices are hedged to Australian dollars.

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^ 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.