Strategy Update: 31 March 2018

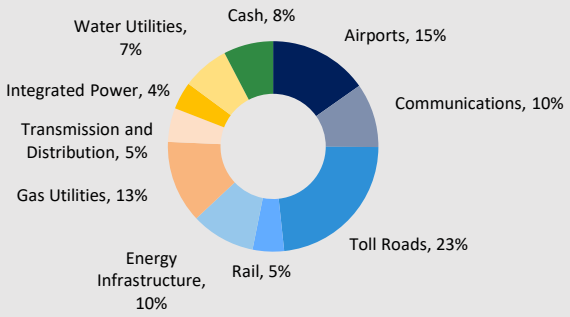
Magellan Select Infrastructure (AUD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets[1]
Gerald Stack	1 July 2007	AUD $4,608.1 million	AUD $10,245.4 million

Objective	Approach
Capital preservation in adverse markets	Concentrated 20-40 stock portfolio applying our proprietary infrastructure classification
Pre-fee return of CPI plus 5-6%p.a. through the economic cycle	Valuation driven benchmark-unaware strategy
	Highly defensive, inflation-linked exposure

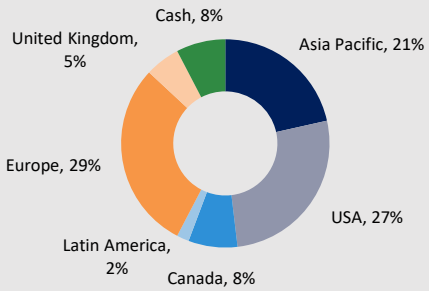
Top 10 Holdings[2]	Sector	%
Transurban Group	Toll Roads	7.5
Crown Castle International	Communications	5.9
Atlantia SpA	Toll Roads	5.2
Sempra Energy	Gas Utilities	4.7
Aeroports De Paris	Airports	4.4
Enbridge Inc	Energy Infrastructure	4.3
Macquarie Atlas Roads	Toll Roads	4.3
American Tower Corp	Communications	3.9
Getlink	Toll Roads	3.9
Atmos Energy Corp	Gas Utilities	3.8
	TOTAL:	47.9

Sector Exposure[2]



AUD 5 Year Risk Measures[4]	Against Benchmark[5]	Against Global Equities
Upside Capture	1.1	0.6
Downside Capture	0.7	-0.1
Beta	0.8	0.4
Correlation	0.8	0.4

Geographical Exposure[2]



Cumulative Performance[3]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	**-2.7**	**7.0**	**9.6**	**14.0**	**14.2**	**11.0**	**9.5**
Composite (Net)	-2.9	6.2	8.7	13.1	13.3	10.2	8.6
Global Infrastructure Benchmark	-6.0	0.5	3.6	9.1	9.5	6.1	5.2
Excess (Gross)	3.3	6.5	6.0	4.9	4.7	4.9	4.3
MSCI World NTR Index Hedged to AUD	-2.3	10.7	8.4	12.5	11.9	8.5	6.4

Annual Performance[3,6]	CYTD (%)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Composite (Gross)	**-2.7**	**18.9**	**7.8**	**12.6**	**24.0**	**19.1**	**16.8**	**12.4**	**13.0**	**25.5**	**-33.4**
Composite (Net)	-2.9	18.0	7.0	11.7	23.0	18.2	15.9	11.5	12.1	24.5	-33.9
Global Infrastructure Benchmark	-6.0	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	10.0	-27.5
Excess (Gross)	3.3	4.5	-6.3	18.0	1.1	0.6	7.7	7.7	7.3	15.5	-5.9
MSCI World NTR Index Hedged to AUD	-2.3	19.8	10.4	3.8	12.3	31.8	18.8	-2.3	12.6	27.0	-39.1

1 Comprised of all Infrastructure Strategies.
2 The data is based on a representative portfolio for the strategy. Refer to the GIPS Disclosure for further information. Sectors are internally defined. Geographical exposure is by domicile of listing.
3 Returns are for the Select Infrastructure Hedged to AUD Composite and denoted in AUD. Performance would vary if returns were denominated in a currency other than AUD. Refer to the GIPS Disclosure section below for further information. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.
4 Risk measures are for the Select Infrastructure Hedged to AUD Composite before fees. The Global Equity Index is the MSCI World NTR Index (hedged to AUD).
5 The Benchmark or Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities NTR Index (hedged to AUD) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (hedged to AUD). Note: the UBS Developed Infrastructure and Utilities NTR Index (hedged to AUD) ceased to be published from 31 May 2015, replaced on 1 January 2015 with the S&P Global Infrastructure Index NTR (hedged to AUD).
6. Last 10 years of annual returns shown.
* Returns are only for part year.

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The Global Infrastructure Benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index Net Total Return (AUD Hedged) and from 1 January 2015 the benchmark is S&P Global Infrastructure Net Total Return Index (AUD Hedged). The benchmark changed because UBS discontinued their index series.
The UBS Developed Infrastructure & Utilities Index Net Total Return ($A Hedged) is a market capitalisation weighted index that is designed to measure the equity performance of listed Infrastructure and Utility stocks. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Australian dollars.
The S&P Global Infrastructure Net Total Return Index (AUD Hedged) is a market capitalisation weighted index that is designed to track 75 companies from around the world diversified across three infrastructure sectors energy, transportation and utilities. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Australian dollars.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) 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 MFG Asset Management.

The Global Select Infrastructure Hedged to AUD composite is a concentrated global strategy investing in strictly defined or "pure" infrastructure companies, (typically 20-40). The filtered investment universe is comprised of stocks that 1. generate reliable income streams 2. benefit from inflation protection and 3. have an appropriate capital structure. The investment objective of the strategy is to minimise the risk of permanent capital loss; and achieve superior risk adjusted investment returns over the medium to long-term. The portfolios are hedged to Australian dollars with Forward contracts. The composite was created in December 2011.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing client.reporting@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

Market Commentary

Global infrastructure and utility stocks fell over the March quarter for the first time in five quarters, in a decline that exceeded the fall in global equities in US-dollar terms, after prospects of faster inflation in the US boosted US bond yields and reduced the appeal of stocks considered by some to be bond proxies. Utilities were the sixth worst performing of the 11 industry classifications within the MSCI World Index in US-dollar terms over the quarter.

US bond yields, the benchmarks for global credit markets, surged to four-year highs after a report in February showed that average hourly earnings for US private sector workers rose 2.9% in January from a year ago, the fastest rise since 2009. The news boosted concerns the US fiscal stimulus in the form of corporate tax cuts and extra spending would prompt the Federal Reserve to raise the cash rate more than three times in 2018. In March, the Fed raised the US cash rate by 25 basis points to between 1.5% and 1.75%, its highest range since the global financial crisis began. Over the quarter, US two-year government bond yields rose 39 basis points to 2.27% while 10-year government bond yields jumped 33 basis points to 2.74%.

Global stocks fell for the first quarter in eight in the March quarter after US President Donald Trump imposed import restrictions that could lead to trade wars (especially with China), concerns mounted that US inflation might accelerate enough to prompt the Federal Reserve to tighten monetary policy more than expected, worries gripped that regulators would crack down on US technology companies, populists did well in Italy's election, and China's economy showed signs of slowing.

Strategy Commentary

The strategy recorded a negative return over the three months. The lagging stocks on a contributions basis included the investments in Enbridge, Transurban and United Utilities. Enbridge slumped 16% due to a revised policy statement from the Federal Energy Regulatory Commission regarding tax treatment for master limited partnerships. The regulator announced that the tax-friendly corporate structure popular with pipeline firms would no longer be able to recover an income tax allowance in certain pipeline service contracts. Transurban gave up 8.1% as investors rotated away from stocks considered to be interest-rate sensitive even though the toll-road operator reaffirmed earnings forecasts and boosted gross profit by 11.6% in the first half of fiscal 2018. United Utilities sagged 14% after the Labour opposition party in the UK said that, if elected, it would nationalise key utilities at a price the Labour party considered appropriate.

The best-performing stocks on a contributions basis included the investments in Aeroports de Paris, Getlink and Vopak. Aeroports de Paris added 12% on higher traffic numbers – fiscal year traffic, for instance, rose a higher-than-expected 4.5% – and after a bill was drafted for cabinet to enable the government to reduce its stake in the airport operator. Getlink surged 8.2% after the operator of the Eurotunnel announced a deal whereby a GE STATCOM, which stabilises power supply, will enable the company to double tunnel traffic when the project is completed in 2019. Vopak rose 9% after the tank-storage company's fourth-quarter results exceeded expectations and it forecast a "significant improvement" for fiscal 2019.

Movements in stocks are in local currency.

Topic in Focus - Eight benefits of listed over unlisted infrastructure

Investors who recognise the benefits of holding global infrastructure may choose the assets in listed or unlisted form. While the benefits of unlisted infrastructure are often argued, this document highlights eight benefits of listed infrastructure. It is a universe of more than 350 companies' worth over US$4 trillion at prevailing market prices. The ownership structure does not change the characteristics of the underlying infrastructure assets (such as stable and reliable real returns and income over the business cycle).

1. Access to some of the world's best infrastructure

If investors want to own holdings in some of the world's best infrastructure assets, they are forced to turn to listed markets. Paris's Charles de Gaulle international airport, Melbourne's CityLink, and the high-voltage electricity transmission network in England and Wales, for example, are owned by listed infrastructure companies. Investors have been well rewarded as these companies have achieved rising returns on equity and higher earnings per share.

2. An ability to invest quickly

The liquid nature of listed infrastructure enables investors to achieve their desired strategic allocation in relatively short order. We estimate that an investor can deploy US$500 million in listed infrastructure assets within a number of weeks, while it can take investors in unlisted infrastructure a number of years to invest a similar amount.

3. Diversification across sectors and regions

Listed infrastructure companies own and operate assets located around the world (developed and emerging countries) and across the spectrum of infrastructure subsectors (including utilities, transport and social). This compares with the unlisted world where funds typically hold a concentrated portfolio of between five and 15 assets.

More recently, about 50% of completed infrastructure deals were focused on renewable energy assets, resulting in most unlisted infrastructure funds having a bias to one sector. Achieving portfolio diversification can be challenging with an unlisted-only approach.

4. An ability to tilt across regions and sectors

Once investors have built a well-diversified portfolio, they can readily adjust holdings across sectors and regions to take advantage of different pricing conditions across markets. This ability can enhance the risk-return profiles of portfolios.

Unlisted infrastructure funds are generally unable to make medium-term tilts across regions and sectors during the life of the fund to take advantage of pricing opportunities.

5. Live prices reduce illusionary risk reduction

The intrinsic value of any long-dated asset is a function of its future cash flows and associated risks. Because of the predictability of their cash flows, the intrinsic valuations of infrastructure assets tend to be stable over time. Despite this, stock prices fluctuate above and below this intrinsic value, presenting the opportunity to achieve superior risk-adjusted returns.

The more infrequently asset valuation takes place, the less accurate the accounting value of an asset is likely to be. Assets in unlisted infrastructure are usually less-frequently valued. For some funds, the liquidity mismatch created by offering members the ability to transact (often daily) more regularly than the assets are valued increases the risk of prices being misrepresented to investors.

6. More mispricing opportunities

The nature of listed markets provides skilled investors with the opportunity to purchase assets at a material discount to their intrinsic value or to sell them at material premiums. In recent years, the demand-and-supply dynamics for private-market infrastructure has shifted such that many of these assets have been acquired at valuation premiums to their publicly traded alternatives.

UK utilities valuation differences, for example have been pronounced. Despite the country's sophisticated regulatory regime that permits utilities to earn a set, fair return on their regulated asset base (which can be thought of as net tangible assets), and regardless of ownership, valuation premiums have persisted over the past decade. However, private-market transaction valuations have exceeded the trading multiples of listed equivalent by between 20% and 50% to the underlying net tangible assets.

These mispricing opportunities are also available within global airports, with transaction multiples in the unlisted market well ahead of what investors are paying for similar cash flow streams in the listed market.

7. Transparency of assets from the outset

In listed securities, investors are well informed and aware of the likely assets that will form part of a listed infrastructure portfolio. This contrasts with private infrastructure funds that can often involve a 'blind commitment' to a fund that may, at the end of the investment period, hold lower-quality non-core assets than promised at the outset.

8. No forced asset sales

Another factor in favour of listed securities is that there are no forced asset sales. The closed-ended nature of private infrastructure funds can result in redeeming assets at sub-optimal market conditions. The open-ended nature of listed assets means exposure can be held indefinitely.