Strategy Update: 30 June 2018

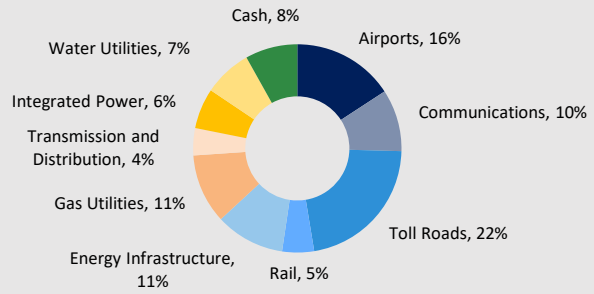
Magellan Select Infrastructure (AUD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets [1]
Gerald Stack	1 July 2007	AUD $4,909.5 million	AUD $10,320.5 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

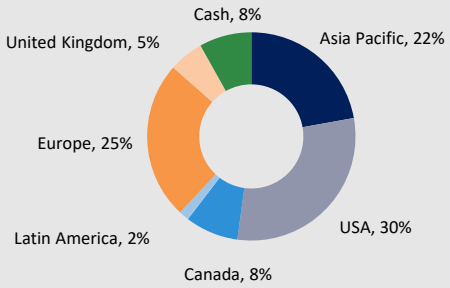
Top 10 Holdings[2]	Sector	%
Transurban Group	Toll Roads	7.5
Crown Castle International	Communications	5.7
Enbridge Inc	Energy Infrastructure	4.9
Sempra Energy	Gas Utilities	4.8
Atmos Energy Corp	Gas Utilities	4.6
Aeroports De Paris	Airports	4.5
Atlas Arteria	Toll Roads	4.5
Atlantia SpA	Toll Roads	4.1
Getlink	Toll Roads	4.0
American Tower Corp	Communications	3.9
	TOTAL:	48.5

Sector Exposure[2]



AUD 5 Year Risk Measures[4]	Against Benchmark[5]	Against Global Equities
Upside Capture	1.1	0.7
Downside Capture	0.7	-0.1
Beta	0.8	0.3
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)	**5.2**	**8.3**	**12.5**	**14.9**	**14.6**	**12.7**	**9.8**
Composite (Net)	5.0	7.4	11.6	14.0	13.7	11.8	8.9
Global Infrastructure Benchmark	5.1	1.9	6.4	10.1	9.9	6.2	5.6
Excess (Gross)	0.1	6.4	6.1	4.8	4.7	6.5	4.2
MSCI World NTR Index Hedged to AUD	3.8	11.5	9.8	12.8	12.5	8.9	6.6

Annual Performance[3]	CYTD (%)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Composite (Gross)	**2.4**	**18.9**	**7.8**	**12.6**	**24.0**	**19.1**	**16.8**	**12.4**	**13.0**	**25.5**	**-33.4**
Composite (Net)	2.0	18.0	7.0	11.7	23.0	18.2	15.9	11.5	12.1	24.5	-33.9
Global Infrastructure Benchmark	-1.2	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	10.0	-27.5
Excess (Gross)	3.6	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	1.4	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 end of the document for further information. Sectors are internally defined. Geographical exposure is by domicile of listing.
3 Returns are for the Select Infrastructure Hedged in 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 in 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 March 2015, replaced on 1 January 2015 with the S&P Global Infrastructure Index NTR (hedged to AUD).

IMPORTANT NOTICE

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited ('Magellan') and an investment fund or investment strategy managed by Magellan ('Strategy'). No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice.

The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. The past performance of the Strategy is not necessarily indicative of future results and no person guarantees the performance of the Strategy or the amount or timing of any return from it. There can be no assurance that the Strategy will achieve any targeted returns, that asset allocations will be met or that the Strategy will be able to implement its investment Strategy or achieve its investment objective. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Strategy. In making an investment decision, you must rely on your own examination of any offering documents relating to the Strategy.

No representation or warranty, express or implied, is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. Magellan will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages.

This material is strictly confidential and is being provided to you solely for your information and must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of Magellan. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any licence or right to use any trademark displayed without the written permission of the owner.

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 in 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.

The AUD is the currency used to calculate performance.

Market Commentary

Global infrastructure and utility stocks rose in the June quarter, to outperform rising global stocks (in US dollars), as companies operating essential services were prominent among those posting better-than-expected earnings for the first quarter and global trade tensions pushed investors into defensive assets. Gains were capped, though, as political turmoil in Italy raised questions about the country's enduring membership of the euro and undermined European stocks where many of the world's listed essential-services providers are based. During the quarter, utilities were the sixth-best-performing of the 11 sectors in the MSCI World Index in US dollars.

Infrastructure and utility stocks were among 80% of US companies, for instance, that financial research and data company FactSet said announced earnings per share above mean estimates, the highest rate since FactSet began tracking this measure in 2008. Trade tensions, which were sparked when the US President Donald Trump threatened the EU and China with tariffs, helped infrastructure and utility stocks because they prompted investors to turn to the most defensive sectors of equity markets.

Italian-based infrastructure and utility companies (and Italian equities more broadly) slumped over the quarter when, after Italy formed a left-right populist government under Prime Minister Giuseppe Conte in early June of 2018 about three months after inconclusive elections, the country had veered towards a fresh poll that could have been an unofficial vote on the country's use of the euro when President Sergio Mattarella refused to accept Paolo Savona as economy minister in the coalition between the anti-establishment Five Star Movement and the right-wing League. While Mattarella agreed to Giovanni Tria as the compromise economy minister at the end of May, Italy's FTSE MIB Index slumped 3.9% over the quarter.

Global stocks rose over the June quarter, to mark their eighth gain in the past nine quarters, after companies posted higher-than-expected earnings, the US economy headed towards its 10th year of expansion, the Federal Reserve only tightened monetary policy as expected and Japan's central bank promised to keep up monetary stimulus. Gains, however, were capped when Trump imposed import restrictions that could lead to trade wars with the EU and China.

Strategy Commentary

The strategy recorded a positive return in the June quarter. The best-performing stocks included the investments in Enbridge of Canada, and APA, Transurban and Atlas Arteria of Australia. Enbridge rallied 18% on gaining regulatory approval for Enbridge's Line 3 Replacement project, which will replace 1,660 kilometres of crude oil pipeline on either side of the Canadian-US border at an estimated cost of C$5.3 billion for the Canadian component and US$2.9 billion for the US side. Another boost over the quarter was that Enbridge's first-quarter profit numbers beat estimates and the company reached its target for asset sales earlier than planned. APA soared 28% after Hong Kong's CK group of companies bid A$13 billion for the gas pipeline operator. Transurban rose 7.3% after the Reserve Bank of Australia, in the minutes of its June meeting, removed the comment that the next move in the cash rate would more likely be up, rather than down. Atlas rose 14% over a quarter during which the toll-road operator changed its name from Macquarie Atlas Roads after reaching an agreement to remove Macquarie and internalise the company's management, and the company announced a new well-regarded CEO.

At a stock level, the worst-performing stocks on a contributions basis included the investments in Italian toll-road operators SIAS and gas utility Snam. The pair lost 13.8% and 1.1% respectively as Italian stocks slumped.

Movements in stock are in local currency

Key Stock in Focus – Aeroport de Paris

ADP - The company is Aéroports de Paris at its core. Owning the gateways to one of the world's most visited cities makes for a sound business.

An airplane takes off or lands every 30 seconds from Charles de Gaulle airport in Paris, one of the largest and most centrally located hubs in Europe. Over the year, this airport will see 66 million passengers pass through it, as 152 airlines take people to and from 329 global destinations.

Aviation operations in Paris extend beyond this one major hub and include Paris-Orly to the south with another 29 million passengers per year, Paris-Le Bourget to the north, one heliport and 10 general-use airports. The total passengers handled each year through the Paris system of airports reaches 102 million and connects 357 cities. Then there are shops, offices, restaurants and other property and services such as car hire to manage at these airports. And it's all handled by one company, ADP, the acronym for its former name, Aéroports de Paris.

ADP, a 50.6% government-owned group that first listed in 2006, goes beyond Paris too. The group has direct or indirect investments in 12 other airports around the world that mean the company handled 228 million passengers last year (including the Paris traffic). Such is the reach of ADP, which generated 3.62 billion euros in revenue in 2017.

Airports provide an essential service, often with monopoly positions in the cities in which they operate, which helps lay a solid foundation for investment. Airport operators have enjoyed rising demand for their services. Lower airfares from increased competition (including from low-cost carriers) and deregulation of air rights, which has opened up markets, have combined with a growing global middle class to see global air travel boom. While regulation is structured to allow the aeronautical operations to earn returns in line with the cost of capital, generally few if any constraints are placed on the returns airport owners can generate from commercial activities such as shops and parking.

The commercial operations are generally lucrative businesses because wealthier segments of society often spend hours browsing in shops or eating in restaurants while waiting for flights. Traffic through these shops and other facilities usually increases over time because airlines generally deliver more passengers to airports each year, via more flights or bigger

planes. Other commercial operations of ADP include managing offices, hotels and car parks on airport land. Given the constant traffic into and out of Paris, ADP is well placed from an investment point of view.

No business, however, is immune from risks. France has witnessed acts of terrorism in recent years that reduced visitor numbers, while outbreaks of disease (e.g., SARS) or economic downturns can also hamper traffic. Such interruptions have historically been infrequent and generally short-lived. While there is risk from the French government being the majority shareholder (and acting to the detriment of minority owners), so far ownership structure has been benign, and the government is moving towards selling its stake. No matter the challenge, the robustness of traffic from one of the world's most-visited cities helps give us confidence in the cash flows of the business over the medium and long term.

Global reach

Aviation remains one of the world's fastest-growing industries. Since the development of commercial aviation, the number of people passing through large airports has grown at multiples of GDP over any medium-term period – aviation traffic is roughly doubling every 15 years or so. This growth is due to increased wealth, the declining (real) cost of air travel and improvements in international airspace regulations that make flying easier. These trends have helped ADP to grow passenger traffic at 1.8% p.a. in Paris since 2005. Over that time, higher airport-use fees and healthy growth in commercial activities have translated into revenue growth of 4.5% p.a. and profit (EBITDA) growth of 7.7% p.a.

ADP can derive such results because the group has a privileged economic position as the monopoly airport owner of a major tourist destination with a large population. The Paris airports host most of the world's major international airlines, including those belonging to the three main alliances, SkyTeam, Star Alliance and Oneworld. About 70% of airport traffic comes from origin and destination passengers where there is limited competition. However, for the 30% of transfer traffic, ADP benefits from network effects as airlines including primary tenant Air France-KLM rely on Charles de Gaulle, with its four parallel runways, as a base for a 'hub-and-spoke' network.

Other ADP long-term advantages include that its three major airports in Paris are complementary; they can service all categories of traffic, from long haul to short haul, local to international, business to leisure. In addition, ADP's airport infrastructure in Paris has capacity to accommodate further traffic growth. The unused capacity includes 381 hectares of land reserves.

ADP's reach, however, extends well beyond France as it has taken its expertise and experience to other markets. The company has interests in airports in Belgium, Chile, Croatia, Guinea, Jordan, the Netherlands and Turkey. These ventures might have justified a name change but the company's main assets are still those in Paris.

Magellan's investment in ADP

The aviation industry has a history of suffering shocks (such as disease, terrorism and the breakout of war) leading to reductions in passenger traffic. However, these reductions have typically proved temporary as the desire to travel combined with long-term declines in the cost of travel and government regulation have led to long-run passenger growth. This pattern of temporary declines in passenger

demand and the subsequent recovery of underlying demand trends has provided opportunity for attractive investment returns. ADP is an example of this.

Magellan has long viewed ADP as a high-quality infrastructure investment opportunity. In November 2015, terrorist attacks in Paris led to concerns that tourist numbers to France would drop and ADP's share price fell as a consequence. While passenger traffic struggled as expected in the first 10 months of 2016, Magellan's analysis of the impact on aviation traffic by similar events gave us confidence that passenger numbers for ADP would recover and that the underlying value of ADP was unlikely to be compromised. Our confidence led us to increase our position in ADP through this period. Ultimately, the attractiveness of Paris as a destination combined with the positive underlying structural influences led to a recovery in passenger numbers – and to attractive investment returns.

Sources: Company filings and website.