Fund Update: 30 June 2018

MAGELLAN
EXPERTS IN GLOBAL INVESTING

Magellan Infrastructure Fund (Unhedged)

ARSN: 164 285 830

Fund Facts

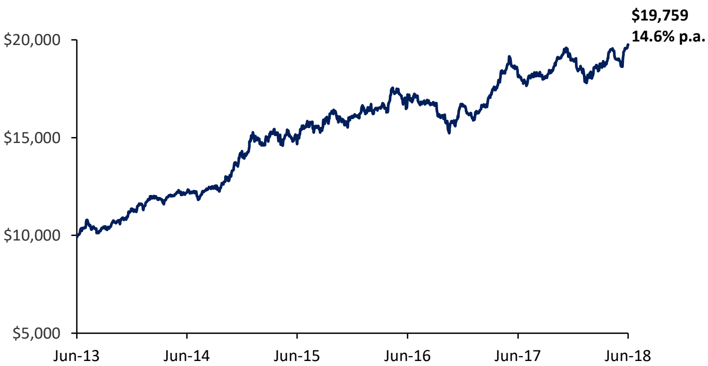
Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund (Unhedged)
Inception Date	1 July 2013
Management & Administration Fee[1]	1.05% per annum
Buy/Sell Spread[1]	0.15%/0.15%
Fund Size	AUD $689.4 million
Distribution Frequency	Six Monthly
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A$ Unhedged Net Total Return) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.

[1]All fees are inclusive of the net effect of GST

Fund Features

- Benchmark-unaware exposure to global listed infrastructure
- Conservative definition of core infrastructure
- Relatively concentrated portfolio of typically 20 to 40 investments
- Maximum cash position of 20%
- $10,000 minimum investment amount.

Performance Chart growth of AUD $10,000*



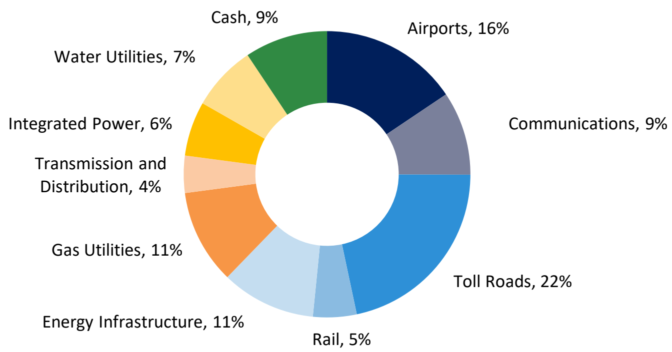
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	3.9	4.3	-0.4
3 Months	5.2	6.2	-1.0
6 Months	4.3	2.1	2.2
1 Year	9.2	4.7	4.5
3 Years (% p.a.)	10.5	6.4	4.1
4 Years (% p.a.)	12.8	9.2	3.6
5 Years (% p.a.)	14.6	11.4	3.2
Since Inception (% p.a.)	14.6	11.4	3.2

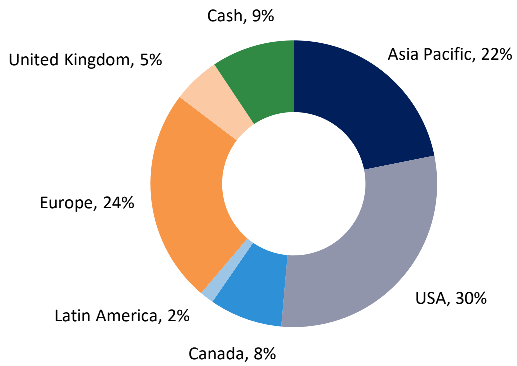
Top 10 Holdings

	Sector#	%
Transurban Group	Toll Roads	7.3
Crown Castle International	Communications	5.7
Enbridge Inc	Energy Infrastructure	4.9
Sempra Energy	Gas Utilities	4.7
Atmos Energy Corp	Gas Utilities	4.5
Aeroports De Paris	Airports	4.5
Atlas Arteria	Toll Roads	4.4
Atlantia SpA	Toll Roads	4.1
Getlink	Toll Roads	4.0
American Tower Corp	Communications	3.8
	TOTAL:	47.9

Sector Exposure#



Geographical Exposure#



* Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 1 July 2013.
** S&P Global Infrastructure Index A$ Unhedged Net Total Return spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (AUD). Note: as the UBS Developed Infrastructure and Utilities Net Total Return Index (AUD) ceased to be published from 31 May 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Index A$ Unhedged Net Total Return.
# Sectors are internally defined. Geographical exposures are by domicile of listing.

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.

Fund Commentary

The portfolio 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 stocks are in local currency.

Stock in Focus - Aeroports de Paris

PARIS AÉROPORT

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.