

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 \$821.4 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.

¹All 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*



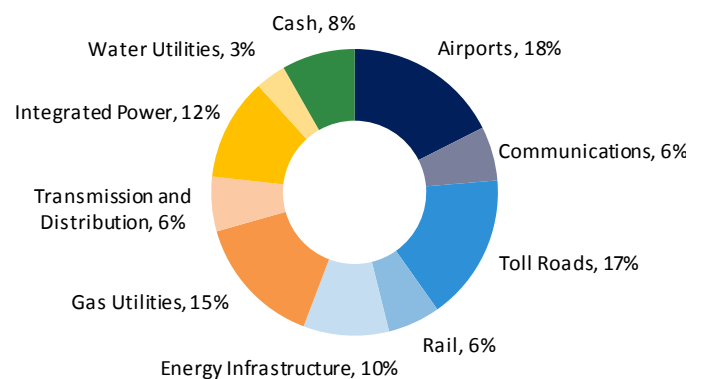
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	2.5	2.6	-0.1
3 Months	11.9	12.8	-0.9
6 Months	11.1	9.8	1.3
1 Year	18.2	16.8	1.4
3 Years (% p.a.)	10.3	10.6	-0.3
5 Years (% p.a.)	13.4	10.6	2.8
Since Inception (% p.a.)	14.9	11.7	3.2

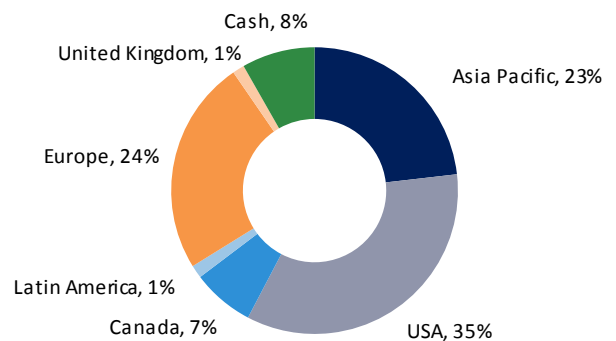
Top 10 Holdings

	Sector [#]	%
Transurban Group	Toll Roads	8.3
Atmos Energy Corp	Gas Utilities	6.1
Enbridge Inc	Energy Infrastructure	4.8
Aena SME SA	Airports	4.7
Sempra Energy	Gas Utilities	4.7
Atlas Arteria	Toll Roads	4.4
Eversource Energy	Integrated Power	4.0
Crown Castle International	Communications	3.9
Snam Rete Gas SpA	Gas Utilities	3.6
Xcel Energy Inc	Integrated Power	3.5
TOTAL:		48.0

Sector Exposure[#]



Geographical Exposure[#]



* Sectors are internally defined. Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.

** 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.

Fund Commentary

The portfolio recorded a positive return for the quarter. Stocks that added the most on a contributions basis included the investments in Crown Castle International of US, Enbridge of Canada and Atlas Arteria of Australia. Crown Castle, which reported a 15% jump in net revenue for the fourth quarter that translated into a 160% increase in earnings per share, climbed 19% on talk the company is well positioned to benefit from more investment in 4G mobile and the rise of 5G networks. Enbridge, which pipes oil, rallied 16% after posting better-than-expected fourth-quarter profits and its pipelines ran at full capacity due to bottlenecks in alternative methods of transporting oil. Atlas Arteria rose 18% after the operator of three toll roads in Europe and one in the US announced guidance for a 25% distribution increase in 2019 and confirmed its internalisation of management functions would be completed early, with the new management taking control on April 1.

No stocks detracted during the quarter.

Key Stock in Focus – Atlas Arteria



Atlas Arteria: An ASX-listed toll road company with foreign assets.

France's Autoroutes Paris-Rhin-Rhône, or APRR, is a 2,318-kilometre network of toll roads in the east of the country that links the wealthiest regions of Paris and Lyon, offers a freight route to Germany, Switzerland and Italy and goes all the way to the French Alps ski region. A 25% stake in APRR is the main asset of ASX-listed Atlas Arteria, which was created in 2010 when Macquarie Infrastructure Group split the 11 toll roads it managed into two companies.

On top of APRR, Atlas Arteria has ownership in three other toll roads in Europe and the US. The company, which earned A\$1.16 billion in revenue in 2018, has a 25% stake in French-based Adelac, the name of the company that owns the concession to a 20-kilometre stretch of road that connects the South-eastern city of Annecy to Geneva in Switzerland. In the US, Atlas Arteria owns the Dulles Greenway,¹ named after the US diplomat John Foster Dulles of the early Cold War era, which is a 22-kilometre toll road in Virginia that links the town of Leesburg to Washington D.C. The other asset is the 100%-owned Warnow Tunnel in the north-eastern city of Rostock in Germany. The 2.1-kilometre toll road is so named because it includes an 800-metre stretch under the Warnow River that connects the residential and industrial parts of the Baltic port.

Such key road infrastructure means that Atlas Arteria offers investors a good vehicle through which they can invest in toll roads. Toll roads, as with other infrastructure and essential-services investments, offer investors stable, growing and inflation-protected cash flows. One of the key attributes that makes toll roads so attractive is that, in most instances, drivers save so much time people still use them if tolls rise. The other is that traffic expands over time as population levels and the economy expand.

Of the 10 or so global infrastructure stocks that are classified as toll roads, Atlas Arteria provides a compelling investment case. The company's three inter-urban and one intra-urban toll roads are well used, as they are on popular routes that have little competition in terms of free and uncongested alternative routes. As well, Atlas Arteria holds long leases over its concessions that permit regular inflation-adjusted toll increases to protect real returns. The stock rose 27% over the 12 months to 31 March 2019.

¹ To be specific, Atlas owns TRIP, which owns the concession for Dulles though 87% subordinated loans and 13% equity.

That said, the intra-urban roads on which Atlas Arteria relies are more vulnerable to economic downturns than intercity ones because they tend to have higher proportions of commercial traffic and discretionary or leisure trips. Events can disrupt traffic too. The 'yellow vest' demonstration in France of recent months forced the temporary closure of some APRR motorways, which cost the company revenue. But while the car stays a central aspect of everyday life in France, the US and Germany, Atlas Arteria has the toll roads to provide its investors with growing, inflation-protected returns in coming years.

Gaining independence

Atlas Arteria, which was known as Macquarie Atlas Roads until 2018, was spun out of the Macquarie Infrastructure Group in 2010 to hold APRR and a number of other toll roads, most of which were struggling financially. The task of management at the time was to narrow holdings down to worthwhile assets. It did this by selling the stakes in the Indiana Toll Road and Chicago Skyway and handing two other roads (the M6 toll road in the UK and the California State Route 125) to lenders.

Over the next years, management created the Atlas Arteria of today by buying an additional 4.7% stake in APRR and another 25% of Adelaç, and by purchasing the 50% of the Dulles Greenway and 30% of the Warnow Tunnel that the company did not own. The recent focus of management has been on a process known as 'internalisation'; namely, removing Macquarie as the manager of the vehicle and installing management, structures and processes to fill the vacuum. The internalisation was completed on 1 April 2019, although Macquarie will provide certain transition services for another six months or so if needed.

An initial focus for the new management team, led by Graeme Bevans, will be to oversee the removal of Macquarie from the management structure of the APRR holding company – Macquarie funds own 16.28% of the holding company but have the right to manage the vehicle as the result of a structure put in place when the company was first privatised. Freed from Macquarie, Atlas Arteria management will be better able to exercise control of its assets.

Traffic has largely remained robust across Atlas Arteria's holdings. Despite the yellow vest protests, APRR traffic rose 2.2% in 2018 to 24.3 billion kilometres travelled, to deliver a 4.7% boost to revenue to 2.54 billion euros (of which 25% heads to Atlas Arteria). Adelaç traffic rose 1.2% to 29,713 average daily trips last year, while revenue rose 3.1% to 56 million euros (25% to Atlas Arteria). Warnow traffic jumped 10.5% to 12,948 average daily trips thanks to construction activity on competing routes, an increase that boosted revenue by 3.1% to 12.6 million euros. Dulles Greenway traffic, however, dropped 4.5% to 50,193 daily trips due to construction activity on the route, resulting in a 1.4% decrease in revenue to US\$90.8 million.

Sources: Company filings, Company website and Bloomberg.