Fund Update: 31 March 2018

Magellan Infrastructure Fund (Unhedged)

ARSN: 164 285 830

Fund Facts

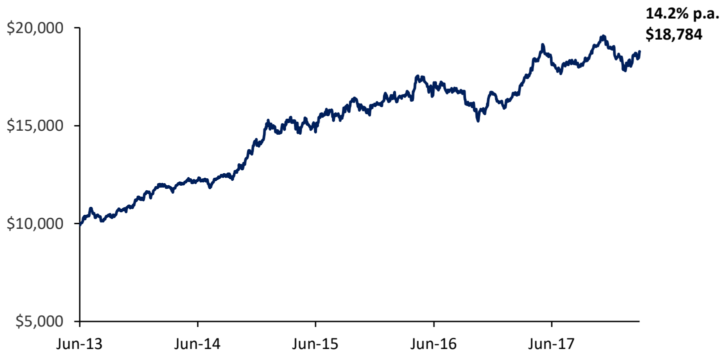
Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund (Unhedged)
Inception Date	1 July 2013
Management & Administration Fee[1]	1.05% per annum
Buy/Sell Spread[1]	0.15%/0.15%
Fund Size	AUD $660.1 million
Distribution Frequency	Six Monthly
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A$ 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*



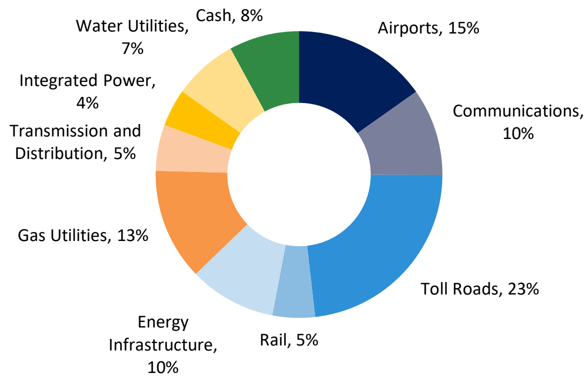
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	3.6	1.6	2.0
3 Months	-0.8	-3.8	3.0
6 Months	3.5	-2.0	5.5
1 Year	9.3	3.6	5.7
3 Years (% p.a.)	7.7	3.4	4.3
4 Years (% p.a.)	12.2	9.0	3.2
Since Inception (% p.a.)	14.2	10.7	3.5

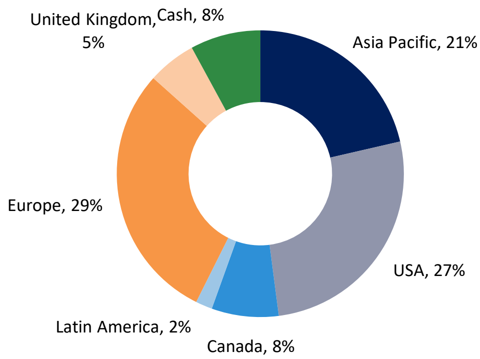
Top 10 Holdings

	Sector#	%
Transurban Group	Toll Roads	7.5
Crown Castle International	Communications	5.9
Atlantia SpA	Toll Roads	5.2
Sempra Energy	Gas Utilities	4.6
Aeroports De Paris	Airports	4.4
Macquarie Atlas Roads	Toll Roads	4.3
Enbridge Inc	Energy Infrastructure	4.3
American Tower Corp	Communications	3.9
Getlink	Toll Roads	3.9
Atmos Energy Corp	Gas Utilities	3.8
	TOTAL:	47.8

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 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.

Fund Commentary

The portfolio 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 Italian infrastructure company Atlantia acquired a 15.49% stake in the company. Vopak rose 9% after the tank-storage company's fourth-quarter results exceeded expectations and it forecast a "significant improvement" for fiscal 2019.

Stock movements 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.