Fund Update: 31 December 2015

Magellan Infrastructure Fund

ARSN: 126 367 226

Fund Facts

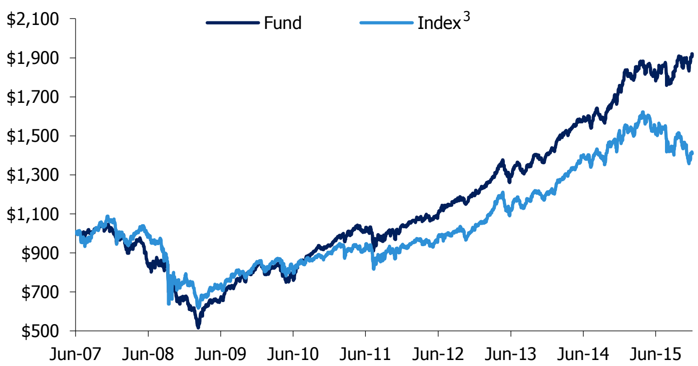
Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund, $AUD Hedged
Inception Date	1 July 2007
Management & Administration Fee[1]	1.05%
Buy/Sell Spread[1]	0.15%/0.15%
Fund Size	AUD $848.6 million
Performance Fee[1]	10.0% of the excess return of the Units of the Fund above the higher of the Index Relative hurdle (S&P Global Infrastructure Index A$ Hedged 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 exclusive of the net effect of GST

Fund Features

- Offers investors a pure, benchmark-unaware exposure to global listed infrastructure
- Conservative definition of infrastructure: invests in companies that generate over 75% of their earnings from the ownership of infrastructure assets
- Relatively concentrated portfolio of typically 20 to 40 investments
- Seeks to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian dollars
- Maximum cash position of 20%
- $20,000 minimum investment amount.

Performance Chart growth of AUD $1,000[2]



Fund Performance[2]

	Fund (%)	Index (%)[3]	Excess (%)
1 Month	0.7	-3.0	3.7
3 Months	4.2	-1.3	5.5
6 Months	7.2	-6.5	13.7
1 Year	10.6	-5.4	16.0
2 Years (% p.a.)	16.4	7.8	8.6
3 Years (% p.a.)	16.8	11.2	5.6
5 Years (% p.a.)	15.3	9.5	5.8
7 Years (% p.a.)	16.0	9.0	7.0
Since Inception (% p.a.)	7.9	4.1	3.8

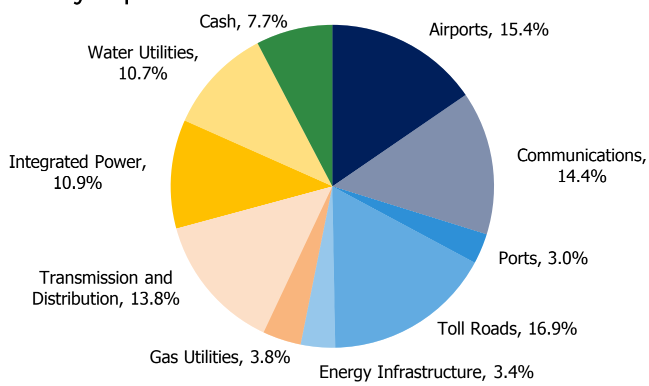
Fund Risk Measures[5]

	5 years	Since inception[2]
Upside capture	0.6	0.7
Downside capture	0.0	0.5

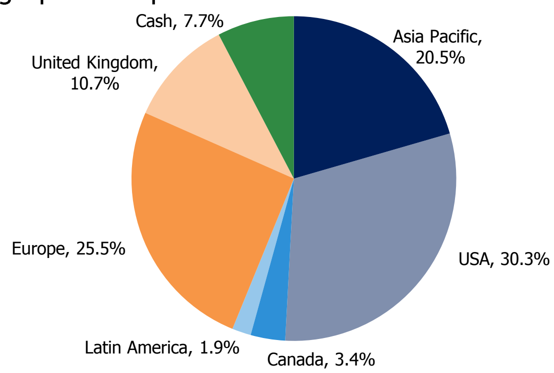
Top 10 Holdings

	GICS Sectors	% of Fund
Transurban Group	Toll Roads	9.1
Crown Castle International Corp	Communications	6.6
National Grid Plc	Transmission and Distribution	6.4
Atlantia Spa	Toll Roads	4.8
SES	Communications	4.6
ITC Holdings Corp	Transmission and Distribution	4.5
American Water Works Co Inc	Water Utilities	4.5
Auckland International Airport	Airports	4.2
Flughafen Zeurich AG	Airports	3.7
Sydney Airport	Airports	3.6
	TOTAL:	**52.0**

Industry Exposure[4]



Geographical Exposure[4]



[2]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 2007.
[3]S&P Global Infrastructure Index A$ Hedged Net spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD). Note: as the UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD) ceased to be published from 31 March 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Index A$ Hedged Net Total Return.
[4]The exposures are by domicile of listing. It is the Fund$ intention to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian Dollars.
[5]Upside/downside capture shows if a fund has outperformed the global market during periods of market strength and weakness, and if so, by how much. The MSCI World Net Total Return Index AUD Hedged has been used as the representative of the global market to calculate this risk measure.

Performance

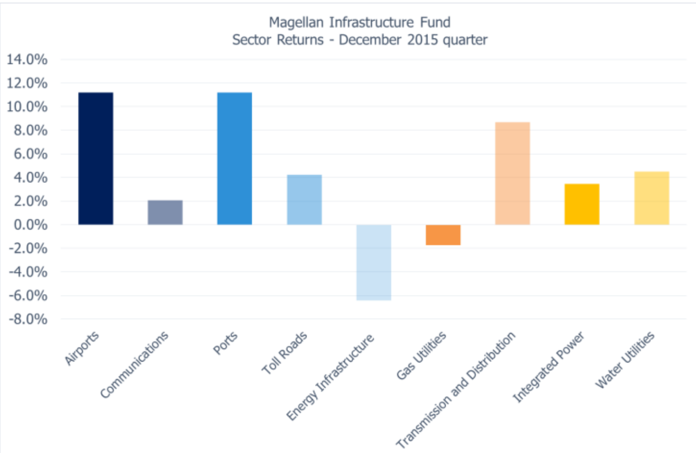
Over the December 2015 quarter, in Australian dollar terms, the Fund returned +4.2% net of fees. This was 5.5% better than the benchmark[6] of -1.3%. The 1 year return to 31 December 2015 for the Fund was +10.6%, 16.0% better than the benchmark return of -5.4%. The Fund also outperformed global equities by 6.8% over the year to 31 December 2015 with the MSCI World NTR (AUD hedged) Index returning +3.8%.

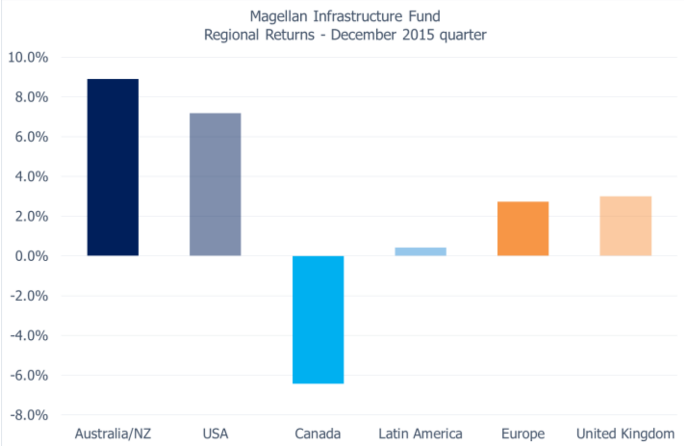
Recent results have reaffirmed the notion that what you exclude from a portfolio can be as important as what you include. We control this risk by maintaining a strict definition of what constitutes infrastructure. Recent volatility in global equity markets saw a flight to high quality defensive stocks such as those held by the Fund. We also saw a sell-off of infrastructure stocks in emerging markets as well as stocks with material earnings exposure to oil prices – stocks commonly found in benchmark infrastructure indices but excluded from Magellan's infrastructure universe.

The best performing stocks held in the Fund were US electric transmission company, ITC (total shareholder return for the quarter of +18.3%, in local currency terms), Auckland Airport (+17.8%), Kansas-based power utility, Westar (+11.2%) and Dutch oil and chemical tank storage company, Vopak (+11.2%). The notable stocks generating a negative return for the quarter were European satellite company, SES (-9.2%) and Canadian oil & gas pipeline company, Enbridge (-6.4%).

The performance of the benchmark S&P Global Infrastructure Index was adversely impacted by its holdings in oil & gas pipeline companies, which were down by a weighted average 29.0% for the quarter. Examples of badly hit stocks included Westshore Terminals (-53.5%), Targa Resources (-46.6%), Kinder Morgan (-45.1%) and The Williams Companies (-28.7%) – all in local currency terms.

The Fund's returns for the quarter by sector and region are shown in the following graphs:





Stock in Focus – Aéroports de Paris

AÉROPORTS DE PARIS

We have recently added Aéroports de Paris (ADP) to the Magellan Infrastructure Fund portfolio. ADP is the owner and operator of the Paris airport system. This includes both the Charles de Gaulle and Orly airports as well as 10 other general aviation airports in the Paris region.

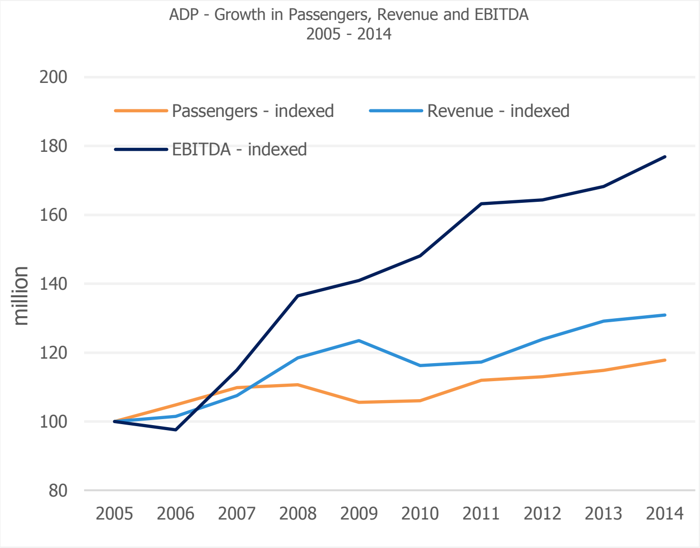
In 2014, these airports handled 92.7 million passengers, making it the second largest airport system in Europe (after London). Paris-Charles de Gaulle airport ranks 8th in the world for passenger traffic and second in Europe for air cargo.

The Paris airports host the majority of the world's major international airlines, including those belonging to the three principal alliances, SkyTeam, Star Alliance and Oneworld. In 2014, ADP had services to more than 319 cities via regular flights from Paris-Charles de Gaulle and Paris-Orly.

High quality airports benefit from a near monopoly stream of passengers through which they are able to generate both aeronautical and commercial income. Regulation is structured to allow the aeronautical operations to earn returns in line with the cost of capital, but with no restrictions placed on the returns that can be generated from non-aeronautical operations, such as retail and commercial property.

Aviation remains a global growth sector. Since the development of commercial aviation, passenger throughput at major commercial airports has grown at multiples of GDP over any medium-term period, reflecting increasing wealth, real reductions in the cost of air travel and improvements in international airspace regulation. These factors remain relevant on a forward looking basis.

As highlighted on the following graph, since 2005, the trends noted above have allowed ADP to grow passenger traffic at 1.8% p.a which, combined with price and non-regulated income growth, translates to revenue growth of 3.4% p.a and EBITDA growth i.e. revenue minus costs, at 5.5% p.a.



It is interesting to note from the above graph that while passenger numbers declined modestly in 2009 and 2010 as the Global Financial Crisis impacted discretionary travel, ADP was able to grow EBITDA quite strongly over the same period.

Magellan considers ADP as having an attractive economic moat that is derived from its position as the monopoly airport owner in Paris, which is both a major tourist destination as well as a significant population hub. This places ADP in an attractive position of having 70% of its traffic coming from origin and destination passengers where there is very limited competition. However, for the other 30% of hub (or transfer) traffic, ADP benefits from significant network effects with major airlines (including its primary tenant, Air France-KLM) relying on Charles de Gaulle as a central location from which to run a 'hub-and-spoke' network.

The key issues that concern us when considering an investment in ADP are the periodic and largely unexpected declines in passenger demand that occur for air travel from exogenous factors such as wars, disease outbreaks or economic downturns. However, these downturns are typically short-lived, with data demonstrating that demand returns to its long-term growth trend within a relatively short period.

Outlook and Strategy

The Fund's investment strategy remains consistent with previous periods and is not expected to change over the long term.

The Fund seeks to provide investors with attractive risk-adjusted returns from the infrastructure asset class. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We expect the Fund to provide investors with real returns of approximately 5% to 6% over the longer term.

We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, given the predictable nature of earnings and the structural linkage of those earnings to inflation, investment returns generated by infrastructure assets are different from traditional asset classes and offer investors valuable diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them particularly attractive and an investment in listed infrastructure can be expected to reward patient investors with a three to five-year timeframe.

[6] The Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities AUD Hedged NTR Index and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure AUD Hedged NTR Index.