

Magellan Infrastructure Fund

ARSN: 126 367 226

Fund Facts

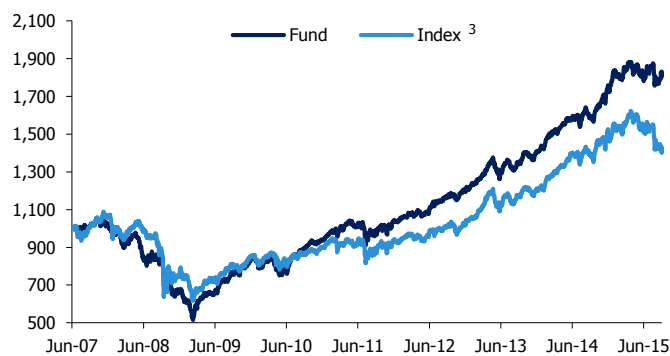
Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund, \$AUD Hedged
Inception Date	1 July 2007
Management & Administration Fee ¹	1.05%
Buy/Sell Spread ¹	0.15%/0.15%
Fund Size	AUD \$840.0 million
Performance Fee ¹	10.0% of the excess return of the Units of the Fund above the higher 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.

¹All 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 \$1,000²



Fund Performance²

	Fund (%)	Index (%) ³	Excess (%)
1 Month	1.9	-2.4	4.3
3 Months	2.9	-5.3	8.2
6 Months	-0.2	-8.2	8.0
1 Year	14.8	2.1	12.7
2 Years (% p.a.)	16.9	10.5	6.4
3 Years (% p.a.)	16.3	12.3	4.0
5 Years (% p.a.)	15.4	10.6	4.8
7 Years (% p.a.)	11.9	7.3	4.6
Since Inception (% p.a.)	7.6	4.4	3.2

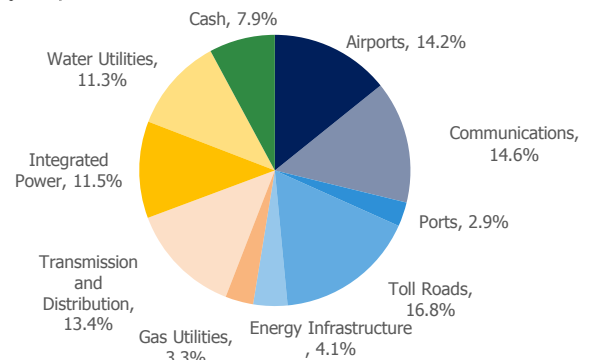
Fund Risk Measures⁵

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

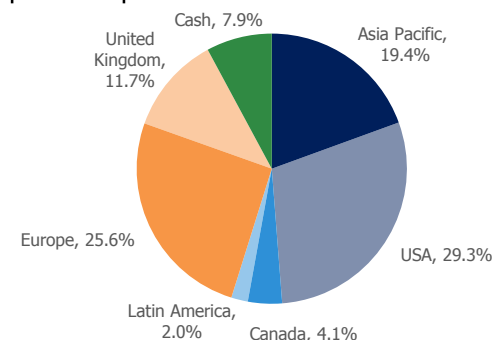
Top 10 Holdings

	GICS Sectors	% of Fund
Transurban Group	Toll Roads	8.8
National Grid Plc	Transmission and Distribution	6.8
Crown Castle International Corp	Communications	6.1
SES	Communications	5.1
Atlantia Spa	Toll Roads	5.0
American Water Works Co Inc	Water Utilities	4.3
Enbridge Inc	Energy Infrastructure	4.1
ITC Holdings Corp	Transmission and Distribution	4.0
Sydney Airport	Airports	3.8
Flughafen Zurich AG	Airports	3.5
TOTAL:		51.5

Industry Exposure⁴



Geographical Exposure⁴



²Calculations 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.
³S&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.
⁴The exposures are by domicile of listing. It is the Fund's 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.
⁵Upside/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

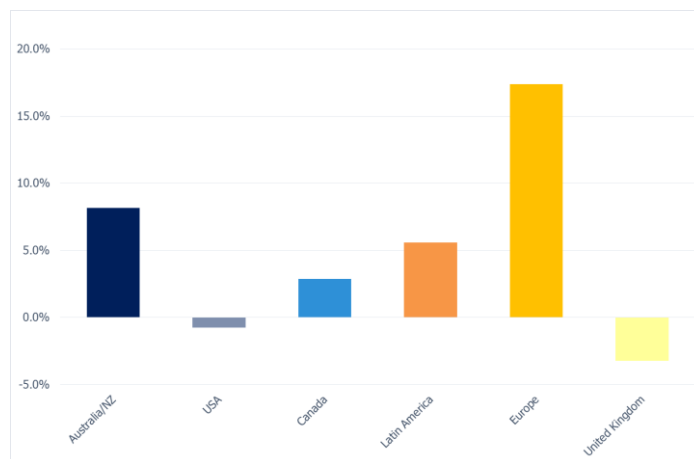
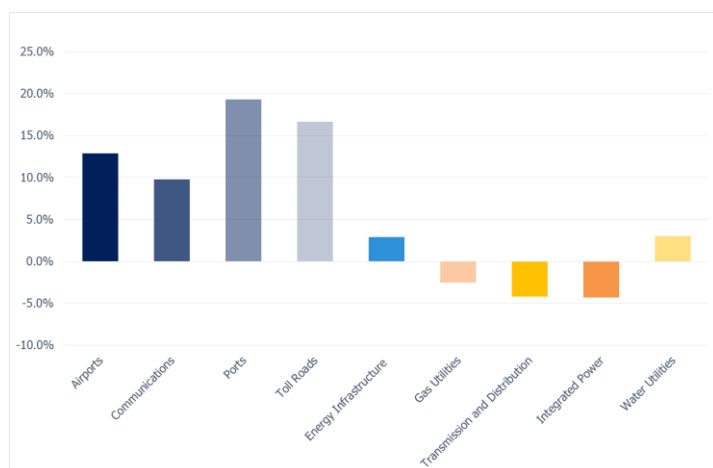
Over the September 2015 quarter, in Australian dollar terms, the Fund returned +2.9% net of fees. This was 8.2% better than the benchmark of -5.3%. The 1 year return to 30 September 2015 for the Fund was +14.8%, 12.7% better than the benchmark return of +2.1%. The Fund also outperformed global equities over the year to 30 September 2015 with the MSCI World Net Total Return Index AUD Hedged returning +1.2%.

The result for the quarter was a reaffirmation of the importance of Magellan's conservative definition of what constitutes the infrastructure sector. The fall in global equity markets saw a flight to high quality defensive stocks such as those held by the Fund. The other side of the ledger saw a sell-off of infrastructure stocks in emerging markets as well as stocks with material earnings exposure to commodity prices – stocks commonly found in benchmark infrastructure indices but excluded from Magellan's infrastructure universe.

The best performing stocks held in the Fund were Macquarie Atlas Roads (Total Shareholder Return of +16.9%), US power utility WEC Energy (+9.6%), UK water utility United Utilities (+8.2%) and US utility Eversource (+8.2%) and UK power utility National grid (+6.8%). Negative performance during the month was experienced by Zurich Airport (-11.9%), North American oil & gas pipeline company Enbridge (-8.9%) and US tower company Crown Castle (-4.4%).

In regard to stocks included in commonly used infrastructure indices but excluded from Magellan's infrastructure investment universe, US oil & gas MLP pipeline companies were down an average 15.4% for the month with downturns also experienced by Chinese listed infrastructure stocks (-8.2%), competitive power generations companies in the US (-3.6%) and Europe (-3.7%), Japanese rail companies (-6.9%) and Japanese energy utilities (-6.8%).

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



Listed infrastructure performance in volatile markets

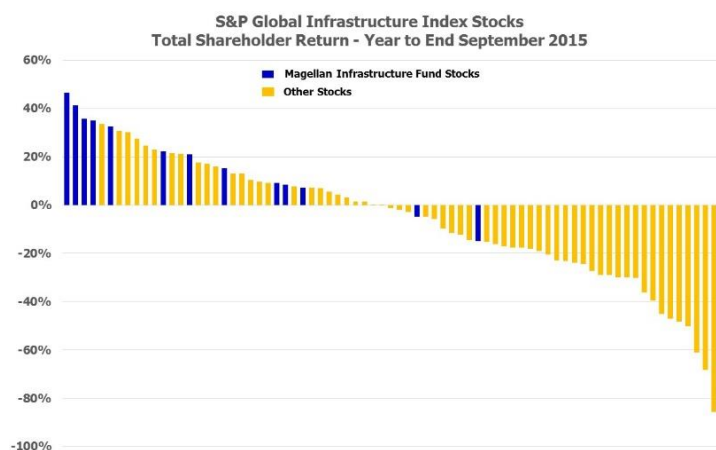
We've seen unsettled markets during the quarter as concerns about both growth and the broader outlook for China following their currency devaluation had a material impact on global markets, especially emerging markets who faced prospects of reduced demand for their products from China. The Federal Reserve also deliberated over the timing of anticipated interest rate increases in the US despite relatively positive data. While the underlying businesses in our investment portfolio shouldn't be affected by these events, it's inescapable that they impact investor confidence and have flow-on impacts into most investment universes.

One of the cornerstones of Magellan's investment philosophy is adhering to a disciplined and strict definition of infrastructure. For example: our infrastructure investment universe only includes businesses which have strong market positions; they have to be in countries and regulatory jurisdictions which are robust and which will honour the rule of law and the contract; regulatory frameworks must be transparent and ensure a fair return on capital; they can't have significant exposure to energy and other commodity price fluctuations.

While this results in a smaller infrastructure universe than many of the relevant benchmark indices and other infrastructure managers, it ensures performance behaviour much more consistent with the broad thesis around infrastructure; namely that true infrastructure businesses will continue to deliver solid operating performance and growth over the long term, and consequently in their stock price and total return performance.

While the past six weeks have been unsettling for many, it does provide an excellent opportunity to review the performance of infrastructure as tightly defined by Magellan relative to other stocks in commonly accepted infrastructure indices. The performance narrative above clearly demonstrates the relative and absolute outperformance of the fund over the quarter, largely due to the disciplined definition of infrastructure which we apply.

Looking back over a slightly longer time frame of the past 12 months highlights this discipline and its results further. The graph below shows the performance of a selection of 75 stocks in the S&P Global Infrastructure Index with those stocks invested in by the Fund highlighted in blue (in local currency terms).



The graph highlights the benefits and results of our approach to definition, with most of the Magellan infrastructure investments resulting in positive shareholder returns and skewed towards the higher return end of the spectrum. Those individual stock performances have resulted in above benchmark and absolute outperformance across the Fund over the year and the most recent quarter as outlined in the quarterly performance commentary above.

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 values. We expect that the Fund should 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, the investment returns generated by infrastructure assets are different from standard 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.

¹The 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.