Magellan Select Infrastructure

Key Facts

Portfolio Managers	Gerald Stack & Dennis Eagar
Inception Date	1 July 2007
Total Infrastructure Assets[1]	AUD $5,169.0 million
Total Select Infrastructure Assets	AUD $1,283.5 million

AUD Hedged Gross Performance[2]

	Composite (%)	Index (%)[3]	Excess Return (%)
1 Month	2.0	1.0	1.0
3 Months	6.8	4.4	2.4
6 Months	16.1	11.2	4.9
1 Year	22.7	19.3	3.4
2 Years (% p.a.)	20.9	17.8	3.1
3 Years (% p.a.)	21.0	17.1	3.9
5 Years (% p.a.)	18.8	12.7	6.1
7 Years (% p.a.)	11.7	7.2	4.4
Since Inception (% p.a.)	9.4	5.9	3.5

AUD Hedged Gross Performance – Calendar Year[2]

	Composite (%)	Index (%)[3]	Excess Return (%)
2007	2.7	6.5	-3.8
2008	-33.4	-27.5	-5.9
2009	25.5	10.0	15.5
2010	13.0	5.7	7.3
2011	12.4	4.7	7.7
2012	16.8	9.1	7.7
2013	19.1	18.5	0.6
2014	24.0	22.9	1.1

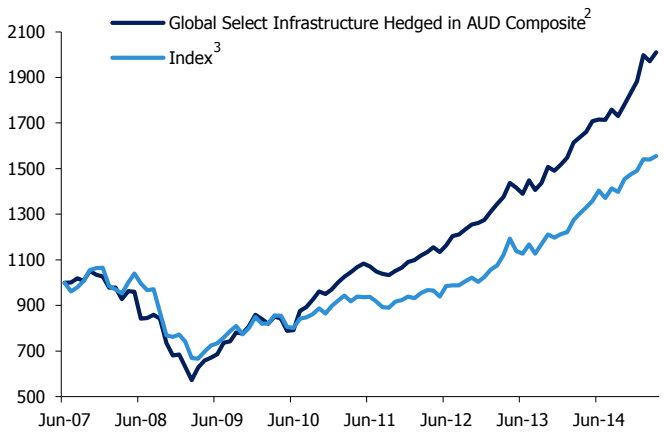
AUD Hedged Risk Measures Since Inception[2]

Upside Capture	0.97
Downside Capture	0.69
Beta	0.83
Information Ratio (% p.a.)	0.40
Tracking Error (% p.a.)	8.9%
Worst Drawdown - Composite	-45.6%
Worst Drawdown - Index	-37.4%

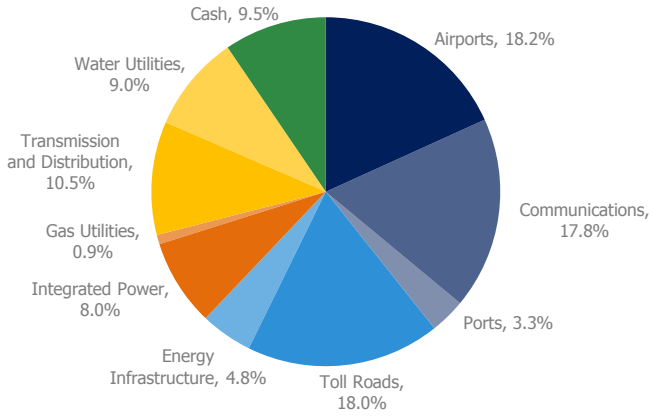
Top 10 Holdings[4]

		% of Strategy
Transurban Group	Toll Roads	9.0
Crown Castle International	Communications	7.2
Atlantia Spa	Toll Roads	6.8
SES	Communications	6.0
National Grid Plc	Transmission and Distribution	5.8
Flughafen Zeurich AG	Airports	5.4
Enbridge Inc	Energy Infrastructure	4.8
Eutelsat Communications	Communications	4.5
Auckland Int'l Airport	Airports	4.5
Fraport AG	Airports	4.3

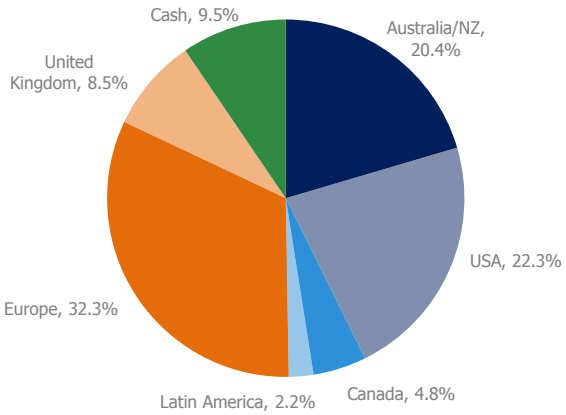
Performance Chart growth of AUD $1,000



Industry Breakdown[4]



Country Exposure by Domicile of Listing[4]



[1] Comprised of the total Firm Infrastructure assets, comprising the Select Infrastructure strategy and Core Infrastructure strategy.

[2] Returns and risk measures are for the Global Select Infrastructure Hedged in AUD Composite.

[3] Index: S&P Global Infrastructure Index A$ Hedged Net from 1 January 2015 spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD) prior to that date

[4] Representative Portfolio.

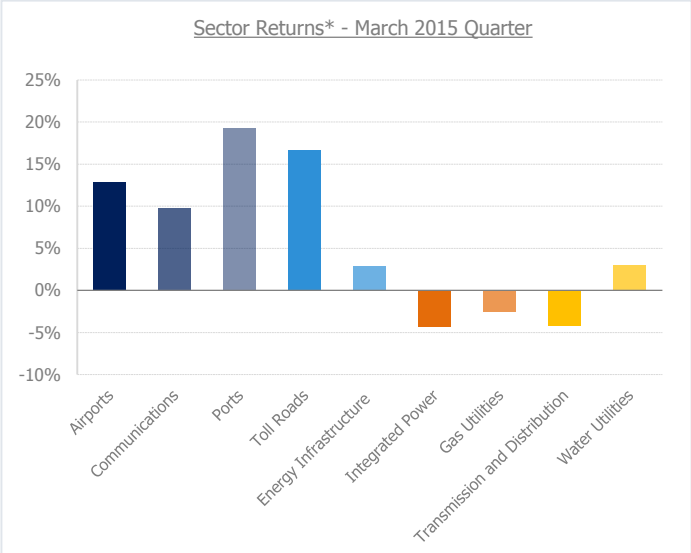
Performance

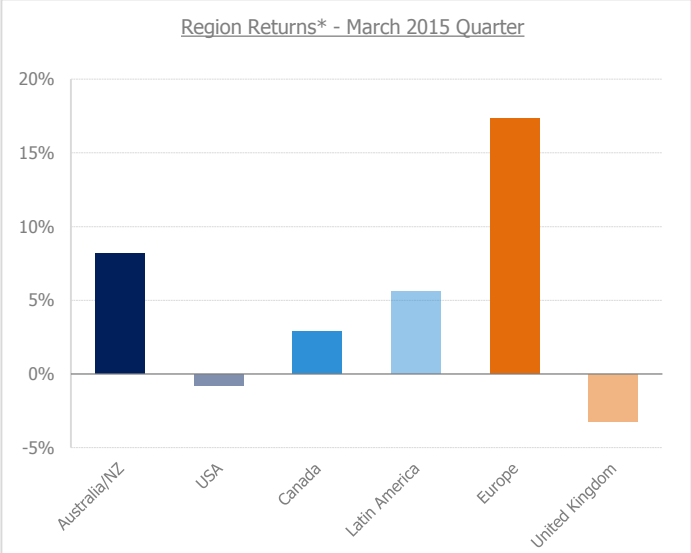
During the March 2015 quarter, in AUD hedged terms, the Magellan Select Infrastructure Strategy ('Strategy') generated a return before fees of +6.81%, 2.45% better than the benchmark S&P Global Infrastructure Index[3] return of +4.36%. This brought the 1 year return for the Strategy to +22.73% and the five year return to 18.75% per annum, 6.06% p.a. better per annum than the Strategy's benchmark.

The Strategy's Utility exposures were a minor drag on performance during the quarter with a weighted average return of -2.1%. In contrast, the Strategy's Infrastructure exposures returned a weighted average +12.6% for the quarter. The strong performance was driven by the Strategy's Ports holdings (weighted average return of +19.3%), Toll Road (+16.7%), Airports (+12.9%) and Communications (+9.8%). Of particular note were the returns from Italian toll road company SIAS (+35.5%), another Italian company Atlantia (which owns the significant majority of the inter-urban toll roads in Italy as well as Rome Airport) of +26.5%, Oil & Gas Storage Tank company Vopak +19.3%, German Airport company Fraport +15.4% and satellite company Eutelsat +15.1%.*

There were quite divergent returns from stocks included in commonly used benchmark indices but excluded from our universe of investable stocks. On the positive side, Chinese infrastructure stocks increased by an average of 17% for the quarter while European utilities with significant competitive power generation businesses increased by approximately 7%. In contrast, US competitive energy businesses declined by an average of 5%, US Oil & Gas MLPs were down an average 4% as were US rail companies. Brazilian infrastructure stocks also fell an average 10% during the period.*

The Strategy's returns by sector and region are shown in the following graphs.



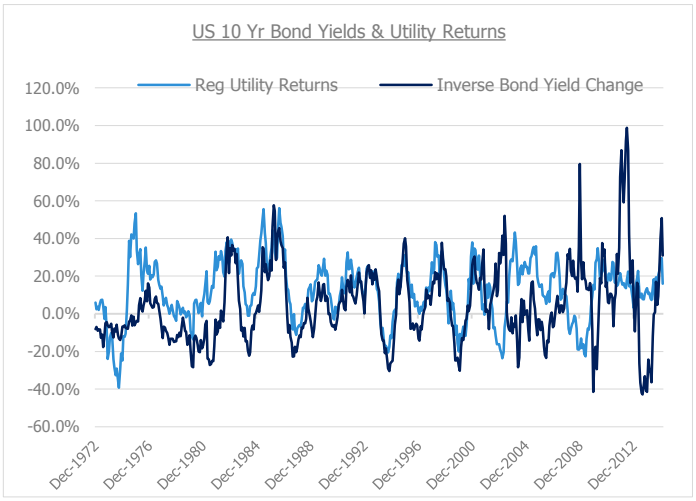


*Returns are stated in local currency terms.

Bond Yields & Utility Returns

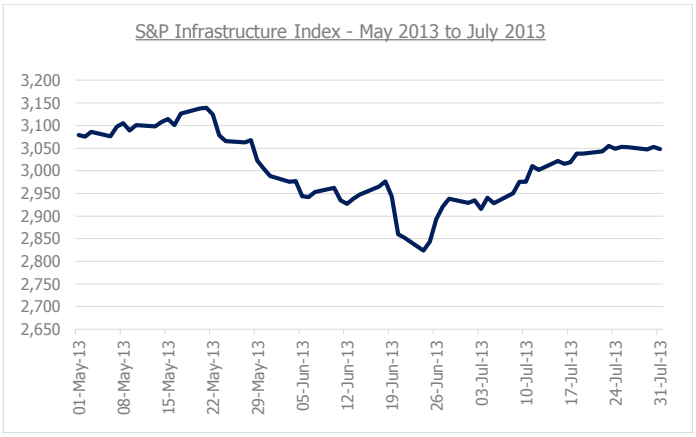
Over many years markets have traded infrastructure stocks, and particularly utilities, as "interest rate sensitive" stocks – on the logic that they carry more debt than the average industrial company and, therefore, a rise in interest rates will impact their earnings and/or mean that their relative dividend yield will become less attractive compared to less risky alternatives such as bank deposits. Superficially these arguments have merit.

But the relationship between bond yields and the share price performance of utilities can break down for many reasons. The following graph uses a Bernstein index of returns of regulated US utilities and the relative change in yield of US 10 year bonds (inverted to highlight correlation). As can be clearly seen, the two factors were highly correlated from the start of the utility return series in 1972 to around 2001 - but there has been effectively no correlation since (R-squared of 0.0346 for the statistically minded).

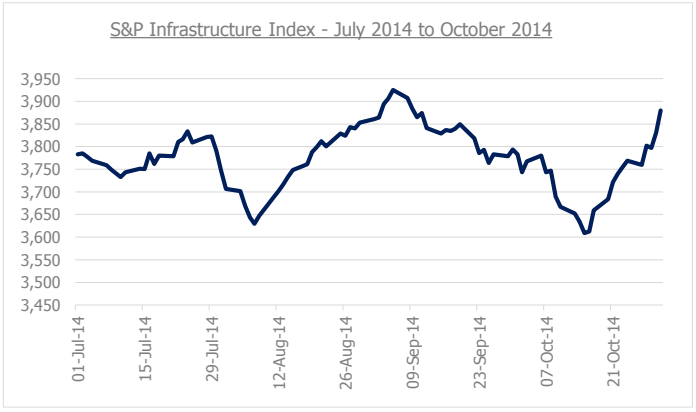


Source: Bernstein, Magellan

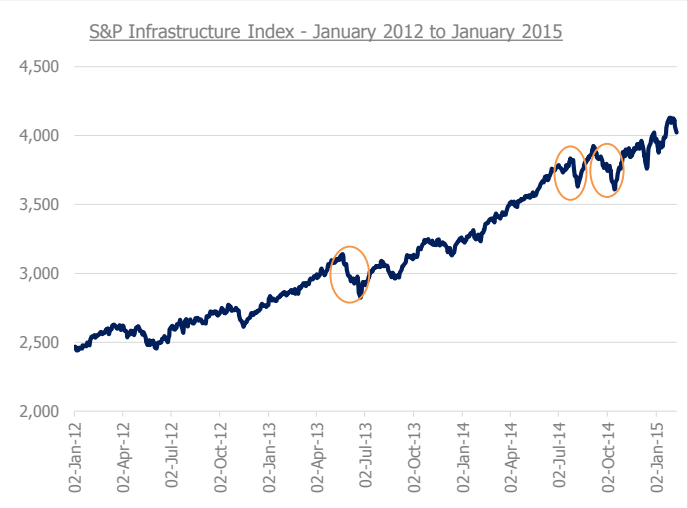
In more recent times we have seen the knee-jerk reaction of the market to actual or expected increases in short term rates in the US. As the following graph shows between 2 May 2013 and 25 June 2013, the S&P Global Infrastructure index fell by 7.5% after 10 year US bond yields increased by 1.0%.



Similarly, twice in the second half of last year the S&P Global Infrastructure Index fell materially as markets became more focussed on potential bond yield increases.



But as the following graph showing the same S&P Global Infrastructure Index highlights that all three previously mentioned downturns are barely noticeable when viewed in the context of the performance of the sector over the last three years.



So what of the next few years? We believe that, while there is likely to be some short term volatility around US utility prices as interest rates progressively increase, the key determinant of the share price performance of those utilities will be their underlying financial performance. Magellan believes that rising interest rates will have, at worst, only a very marginal negative impact on their financial performance. This is because:

- High quality regulated utilities have been a major beneficiary of the Global Financial Crisis (GFC) because credit markets now offer debt to these companies that is:
    - Cheaper;
    - Longer term;
    - Available from many more sources
- Consequently, utilities now carry higher levels of fixed price debt and have relatively less debt maturing in any one year.
- Accordingly, any increase in interest rates will have little impact on their all up cost of debt. Indeed, the cost of debt for a number of companies can be expected to continue to fall over coming years as expensive pre-GFC debt is refinanced with much lower cost debt (albeit debt that is more expensive than right now).

Finally, many of the US utilities have passed the peak in their capex programs which will allow dividend payout ratios to be increased to offset any comparative disadvantage they may face when traded as a dividend yield play.

Outlook and Strategy

The Strategy 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 Strategy should provide investors with real returns of approximately 5% to 6% p.a. 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.

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The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy$ performance may be volatile. The past performance of the Strategy is not necessarily indicative of future results and no person guarantees the performance of the Strategy or the amount or timing of any return from it. There can be no assurance that the Strategy will achieve any targeted returns, that asset allocations will be met or that the Strategy will be able to implement its investment strategy or achieve its investment objective. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor$ ability to withdraw and transfer interests in the Strategy. In making an investment decision, you must rely on your own examination of any Offer Document relating to the Strategy.

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Performance is compared to S&P Global Infrastructure Index A$ Hedged Net from 1 January 2015 spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD) prior to that date, which is a market capitalisation weighted index that is designed to measure the equity performance of listed Infrastructure and Utility stocks. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Australian dollars.

GIPS® DISCLOSURE

Magellan claims compliance with the Global Investment Performance Standards (GIPS®). For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by Magellan. The Magellan Select Infrastructure composite is a global strategy investing in strictly defined or"pure"infrastructure companies (typically 80-120). The composite is hedged to Australian dollars with Forward contracts. To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns. A list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing data@magellangroup.com.au

^ The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selections of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request. Industry and Geographical Exposures are calculated on a look through basis based on underlying revenue exposure of individual companies held within the representative portfolio.