

Magellan Infrastructure Fund (Unhedged)

ARSN: 164 285 830

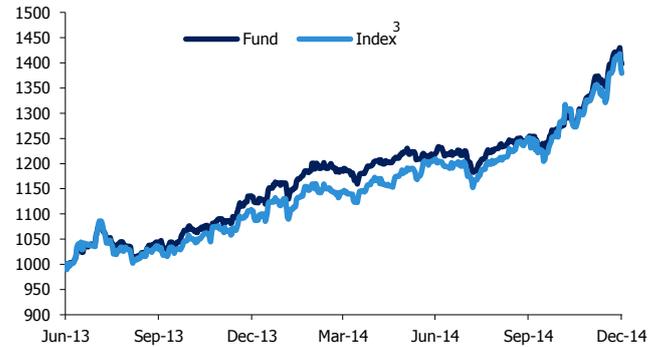
Key Facts

Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund (Unhedged)
Inception Date	1 July 2013
Management & Administration Fee ¹	1.05%
Buy/Sell Spread ¹	0.15%/0.15%
Fund Size	AUD \$141.2 million
Performance Fee ¹	10.0% of the excess return of the Units of the Fund above the higher of the Index Relative hurdle (UBS Developed Infrastructure and Utilities Net Total Return Index (AUD))* 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.

*From 1 January 2015, as the UBS Developed Infrastructure and Utilities Net Total Return Index (AUD) ceased to be available, it has been replaced by the S&P Global Infrastructure Index A\$ Unhedged Net Total Return.

Performance Chart growth of AUD \$1,000²



AUD Performance²

	Fund (%)	Index (%) ³	Excess (%)
1 Month	4.8	4.1	0.7
3 Months	11.8	10.5	1.3
6 Months	14.5	14.1	0.4
1 Year	23.3	24.8	-1.5
Since Inception (% p.a.)	25.0	23.9	1.1

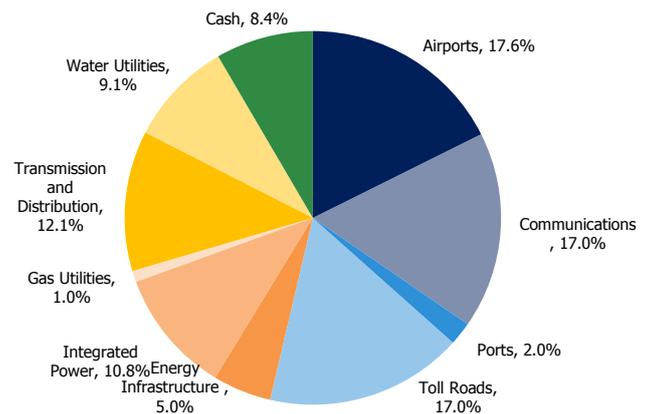
Top 10 Holdings

		% of Fund
Transurban Group	Toll Roads	8.7
Crown Castle International Corp	Communications	6.4
National Grid Plc	Transmission and Distribution	6.3
SES	Communications	6.2
Atlantia Spa	Toll Roads	6.1
Enbridge Inc	Energy Infrastructure	5.0
Sydney Airport	Airports	4.5
Flughafen Zeurich AG	Airports	4.5
Auckland International Airport	Airports	4.4
Eutelsat Communications	Communications	4.3

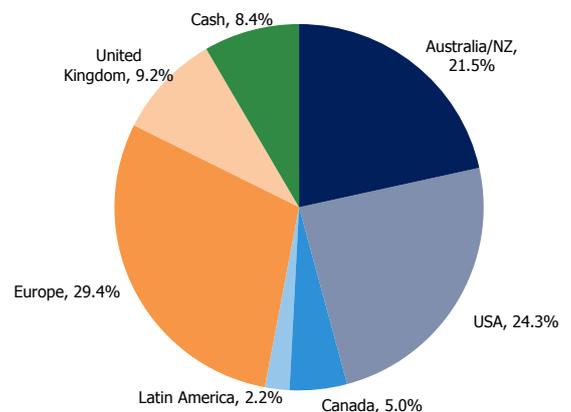
Regional Breakdown

	% of Fund
North America	32.2
Europe Ex-UK	25.0
United Kingdom	11.5
Developed Asia	0.2
Emerging Markets	3.8
Australia	14.3
New Zealand	4.4
Other	0.2
Cash	8.4
Total	100

Industry Breakdown



Country Exposure by Domicile of Listing⁴



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 2013.

³UBS Developed Infrastructure and Utilities Net Total Return Index (AUD). From 1 January 2015, as the UBS Developed Infrastructure and Utilities Net Total Return Index (AUD) ceased to be available, it has been replaced by the S&P Global Infrastructure Index A\$ Unhedged Net Total Return.

⁴Calculated on a domicile of asset basis

Performance

During the fourth quarter of 2014, the Fund returned 11.8% in Australian dollar terms, net of fees, which was 1.3% better than the market benchmark (the UBS Developed Infrastructure & Utilities Net TR Index). For the year ended 31 December 2014, the Fund returned +23.3%, 1.5% less than the market benchmark.

The Fund's 6 best performing stocks were all US utilities. They included Southwest Gas (Total Shareholder Return (TSR) of +28.0%), Wisconsin Energy (+23.6%), Westar (+22.0%) and Northeast Utilities (+21.7%). Only 4 of the 28 stocks in the portfolio showed negative returns for the quarter, the worst being German airport company Fraport (-7.3%), Italian toll road company SIAS (-4.4%) and Italian electricity transmission company Terna (-3.8%).

In terms of the stocks included in commonly used infrastructure indices but excluded from the Magellan Infrastructure universe, Korean stocks performed poorly (-10.1%) as did Power Generation stocks (-3.8%), including Greece's Public Power Corp (-42.6%), the UK's Drax Group (-28.8%), US utility ONEOK (-23.3%) and Australia's Origin Energy (-22.0%). US & Canadian rail stocks provided an average TSR of +2.1%, while US Oil & Gas MLP's generated an average TSR of -11.5%.

During the period the portfolio was changed only marginally both from a sector and regional viewpoint.

Risks of Increasing Interest Rates

In our view, the major risk currently faced by infrastructure (and other asset classes) is the impact of a potential increase in bond yields.

The past six months has witnessed an increase in underlying interest rates as investment markets turned their focus to the prospect the Fed will end its Quantitative Easing programme ('QE') in the next couple of years. We expect interest rates to continue to rise over the medium term. Increasing interest rates represent a challenge for all investment classes and infrastructure, although better placed than many assets, is not immune from these risks. While prevailing interest rates have been well below historical averages since the global financial crisis, we do not believe that long-term infrastructure investors made their investment decisions during the period since the GFC based on prevailing interest rates, but on a higher, more historically normal level of interest rates. As a consequence, while increasing interest rates represent a risk for investors in infrastructure assets, we believe that the medium-to-long-term risk is not that interest rates rise from present levels rather that they rise materially above "normal" levels.

The risks posed by an increase in interest rates are somewhat different for utilities and infrastructure assets.

- **Utilities:** Utilities operate under a compact with their communities under which the utility provides a reliable, efficient service and invests for the future, in return earning a fair return on the capital invested in its operations. Utilities are not able to exploit their natural monopoly power, but they are protected from both the fluctuations of the economic cycle and changes in variables outside their control, such as interest rates. Ultimately, the key determinant of the level of returns generated by regulated utilities is the return approved by their regulators. An increase in interest rates should lead to an increase in the approved rate of return (so that the utility continues to be able to earn a fair return). However, a utility can suffer because of mismatches and lags between increases in interest rates and subsequent accompanying increases in approved regulatory returns. Regulatory rates of return have been sticky as interest rates have declined and we expect that there will also be stickiness as they rise.
- **Infrastructure:** Infrastructure assets typically have an ability to pass the effects of inflation through to consumers via the price of the infrastructure service (e.g. tolls on a toll road are normally linked to inflation). However, where an infrastructure asset is partially funded by debt, an increase in interest rates (that is not accompanied by an increase in inflation) can increase the cost of the debt (with a lag if the debt interest costs are hedged) and, therefore, reduce the returns available to investors.

One of the interesting effects of the GFC has been the significantly increased focus of debt markets on the reliability of the debt of high-quality infrastructure and utility assets. The companies in which we invest now have access to more sources of debt, longer term debt and significantly cheaper debt than pre-GFC. As a consequence, almost all of the companies in which we invest have the significant majority of their debt in fixed interest rate structures that will insulate them from any rise in interest rates in the shorter term.