Fund Update: 31 December 2017

Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)

ARSN: 612 467 580

ASX code: MICH

Fund Facts

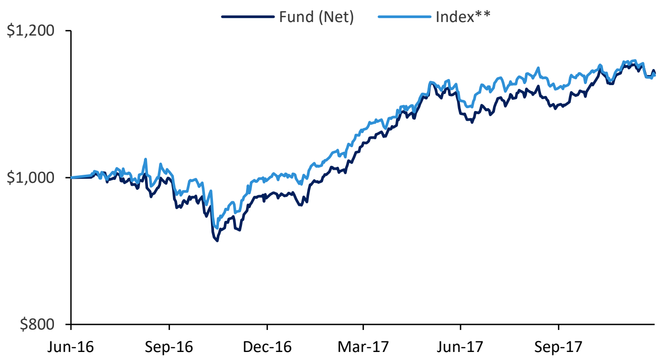
Portfolio Manager	Gerald Stack		
Structure	ASX-quoted Global Infrastructure Fund		
Inception Date	19 July 2016		
Management & Administration Fee[1]	1.05%		
Fund Size	AUD $144.8 million		
Distribution Frequency	Six Monthly		
Performance Fee[1]	10% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A$ 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.		
iNAV tickers	Bloomberg	MICHIV	MICHIV Index
	Thomson Reuters	MICH.AX	MICHin.IDCC
	IRESS	MICH.AXW	MICHNAV.ETF

[1]All fees are inclusive of the net effect of GST

Fund Features

- ASX quoted version of Magellan Infrastructure Fund
- Fund is actively managed
- Minimum administration for investors; no paperwork needed to trade
- Units can be bought or sold on the ASX like any other listed security
- Efficient and live pricing
- Provision of liquidity by the Fund
- Settlement via CHESS
- Magellan has significant investment alongside unit holders

Performance Chart growth of AUD $1,000*



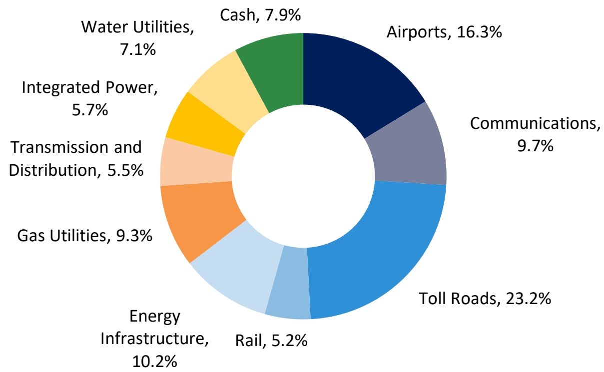
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-1.1	-1.6	0.5
3 Months	4.0	1.6	2.4
6 Months	5.1	3.1	2.0
1 Year	17.5	14.4	3.1
Since Inception (% p.a.)	9.6	9.4	0.2

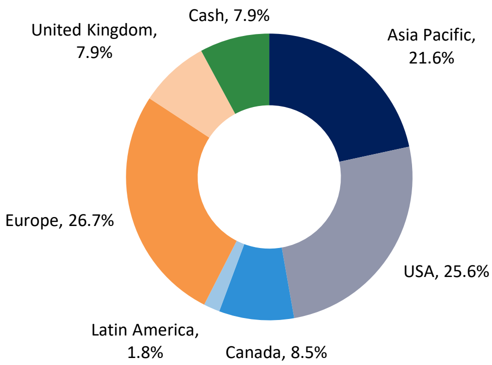
Top 10 Holdings

	Sector#	%
Transurban Group	Toll Roads	8.0
Crown Castle International	Communications	5.8
Aeroports De Paris	Airports	5.4
Enbridge Inc	Energy Infrastructure	5.2
Atlantia SpA	Toll Roads	5.1
Macquarie Atlas Roads	Toll Roads	4.6
Sempra Energy	Gas Utilities	4.3
American Tower Corp	Communications	3.9
Sydney Airports	Airports	3.8
National Grid PLC	Transmission and Distribution	3.7
	TOTAL:	49.8

Sector Exposure#



Geographical Exposure#



* Calculations are based on the monthly ASX released net asset value with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 19 July 2016.

** The index is the S&P Global Infrastructure Index A$ Hedged Net Total Return.

Sectors are internally defined. Geographical exposures are by domicile of listing.

Market Commentary

Global infrastructure stocks rose for a fourth consecutive quarter in the December quarter after infrastructure companies reported healthy earnings, although they underperformed global equities because higher US bond yields reduced the relative attractiveness of long-duration assets such as infrastructure stocks, and infrastructure stocks were judged as benefiting less relatively from the lower US corporate tax rate. Utilities, a large subset of infrastructure, was the only one of the 11 industry classifications within the MSCI World Index that fell in US-dollar terms over the quarter.

US government bond yields, the benchmark for global credit markets, rose over the quarter as reports showed the US economy was growing fast enough to stir inflation, even without any investment spurred by the lower corporate tax rate. Over the quarter, US government two-year yields climbed from 1.48% to 1.88% while 10-year yields rose from 2.33% to 2.41%. Higher bond yields dim the appeal of infrastructure stocks, which are viewed as 'bond proxies' over the short term because, like bonds, they offer reliable income streams.

Infrastructure stocks were swept along in the general rise in shares over the quarter when global stocks set record highs as they rose for a seventh straight quarter as US companies overall posted higher-than-expected earnings, the internet giants surged on strong results and their upbeat outlooks, US Congress slashed the corporate tax rate, the Federal Reserve projected that it would only tighten US monetary policy slowly, and the world's major economies grew in unison for the first time in about a decade. European stocks, however, slid on political uncertainty as Germany's indecisive election in September left the incumbent Christian Democratic Union of Germany Party led by Chancellor Angela Merkel struggling to form a coalition government.

Fund Commentary

The portfolio recorded a positive return over the three months. At a stock level on a contributions basis, the best performers included investments in Aeroports de Paris, Crown Castle International, Macquarie Atlas and Transurban.

Aeroports de Paris surged 16% on healthy traffic numbers and speculation the French government was readying to sell its 50.6% stake in the airport operator. Crown Castle jumped 12% because the failure of a proposed merger between US telecoms Sprint and T-Mobile preserves at four the number of big customers of tower companies. Macquarie Atlas rose 16% following an announcement in September that it had executed its right to buy (at a price consistent with our valuation) a further 4.9% stake in Autoroutes Paris-Rhin-Rhône, Europe's fourth-largest motorway group. Transurban gained 7.7% after signing a new concession agreement for the West Gate Tunnel project in Melbourne.

Lagging stocks on a contributions basis included the investments in Enbridge and Sempra. Enbridge lost 4.6% after a ratings downgrade as one of its subsidiaries raised concerns early in the quarter that it may have to raise equity, and after revelations that it failed to inform the regulator over damage to one of its pipelines in Minnesota at a time it is seeking approval for a major project expansion in the state.

Sempra fell 5.7% after a 5-0 verdict by Californian regulators on whether or not one of its units could recoup losses from wildfires in 2007 increased the risks faced by private energy providers for damage from bushfires in the US state.

Movements in stocks are in local currency.

Key Stock in Focus – Getlink

Getlink – the owner of the 'rolling motorway' between the UK and France

Drivers arrive at a terminal in Coquelles in France or at Folkestone in the UK. They enter, check in and navigate border controls. Time permitting, they can browse at shops, eat at restaurants, change currency, exercise their pets or just wait for about 30 minutes. When called, they drive their cars onto Eurotunnel Le Shuttle or their trucks onto Eurotunnel Le Shuttle Freight, trains that are 775 metres long. About 35 minutes after departure, they arrive at the other side of the English Channel – having travelled underneath – and drive off the shuttles and onto the connecting motorways. In total, the trip by rail under the seabed takes around an hour, much less time than travelling on the alternative ferries.

Such is Getlink's primary asset, the Eurotunnel. The 50-kilometre tunnel is, in fact, a system of three connected tunnels – two single-track railway tunnels 30 metres apart and a service tunnel in between. When tunnelling started in 1988 from the UK and France simultaneously, the project was rated one of the biggest infrastructure project ever undertaken. The 37.9 kilometres underwater stretch that was bored an average 50 metres below the seabed – the lowest point is 75 metres below – is the longest undersea tunnel in the world. The soil dug up and then dumped on the UK expanded the country by 36 hectares, while the French created a hill with their debris.

As an infrastructure asset, the tunnel serves as a 'rolling motorway' that connects the French and British national motorway systems. Cars and trucks travel across the channel by riding in purpose-built shuttles. High-speed passenger trains also speed through the tunnel on the same tracks as the shuttles, which provides people with a fast and reliable way to move between London and Paris and other cities.

Getlink's business generated about 900 million euros (A$1.4 billion) in revenue in 2016 from transporting vehicles and people by train and by allowing freight and high-speed passenger trains to pass through the tunnel. The prospect of more passengers paying higher fares together with increasing numbers of passenger and freight trains, when combined with low maintenance costs, should lead to relatively stable long-term earnings growth for the foreseeable future. Additionally, one of the more attractive features from an investor's point of view is the long duration of Getlink's concession contract for Eurotunnel – the company has the right to operate the tunnel until 2086.

Favourable trends

Getlink's Eurotunnel is not a pure monopoly operator but, like toll roads, it has competitive advantages compared with the alternative routes (in this case, the ferries). Chief amongst these are speed and reliability – transiting via the Eurotunnel takes less than half the time of the ferries and journeys are far less vulnerable to unfavourable weather, which can delay and disrupt ferry services.

These advantages allow the Eurotunnel to capture attractive shares of the markets in which it operates. In 2016, Eurotunnel reported a 39% market share (up from 37% the year before) in the transporting of trucks across the English Channel (where the Eurotunnel crosses). The market share is even higher in the passenger markets as the tunnel has a 55% share of the cars crossing the Channel, and about 80% share of passenger traffic between Paris and London on high-speed rail via the Eurostar service.

Like all transport assets, Eurotunnel's operating environment is influenced by economic conditions. The number of trucks depends on how the economy is performing and exchange rates can influence traffic volumes. The recent drop in the British pound, for instance, made outbound leisure travel from the UK more expensive, albeit this can also be a boon as people trade down to self-drive holidays, while it was a drag on truck volumes as it made imports to the UK more expensive. The Eurotunnel is also exposed to specific risks such as cheaper fuel prices (which make the ferries more competitive) and incidents such as the 2015 terrorist attacks in France that curbed UK tourist traffic.

The greatest uncertainty over the company's outlook is the UK's impending separation from the EU. The terms of the UK departure are unknown and any major disruption to trade between the UK and Europe would hit Eurotunnel's revenue as a quarter of the goods traded between the UK and Europe pass through the tunnel, including fresh produce that needs certainty of delivery.

Notwithstanding these risks, the Eurotunnel is attracting more traffic. Over the past five years, truck volumes on the shuttles have grown at 5.4% p.a. to 1.6 million a year, and car volumes have grown at 2.9% p.a. to 2.6 million each year. (About 20 million people use the Eurotunnel in some way each year.) Passenger numbers on the tunnel's high-speed rail have grown more modestly over the past five years (0.7% p.a.); however, as additional cities are connected to London (such as the direct link to Amsterdam that was launched in December 2017), high-speed rail will attract more passengers. While the charges for high-speed rail passengers are set under a long-term contract, the popularity of the Eurotunnel shuttle service – best shown by the growth in cars and trucks using the service – means Getlink can charge higher prices each year. The average price the Eurotunnel charges car and truck shuttle users, for example, has increased on average by 3.7% p.a. since 2011. Part of this has come from increased customer segmentation and a premium product offering that has helped to reduce price elasticity. The rise in volumes and prices is why we expect the asset will deliver as an investment as it fulfils its role as a critical piece of infrastructure for facilitating trade across the Channel.

Over the medium term, Getlink's Eurotunnel enjoys two favourable trends. The first is that policymakers and the public want more high-speed rail services – more direct services are expected to open between London and continental Europe. The other is that, despite any short-term disruptions that may occur from Brexit, ultimately economic growth in Europe and the UK should boost growth in trade and passenger traffic between the Eurotunnel's Coquelles and Folkestone terminals.

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