

# MFG Core Infrastructure

## Key Facts

Portfolio Managers	Gerald Stack & Dennis Eagar
Inception Date	18 January 2012
Total Infrastructure Assets <sup>1</sup>	USD \$4,096.8 million
Total Strategy Assets	USD \$3,016.0 million

## USD Gross Performance<sup>2</sup>

	Composite	Index	Excess Return
3 Months (%)	2.5	-7.2	9.7
6 Months (%)	-0.5	-9.1	8.7
1 Year (%)	3.0	-6.9	9.9
3 Years (% p.a.)	10.3	5.7	4.6
Since Inception (% p.a.)	11.9	6.4	5.5

	Composite	Index	Excess Return
2012* (%)	16.4	7.0	9.4
2013 (%)	14.0	14.4	-0.4
2014 (%)	17.4	14.1	3.3
2015 (CYTD)*	-2.7	-10.0	7.3

## AUD Hedged 5 Year Risk Measures<sup>3</sup>

	Against Benchmark	Against Global Equities
Upside Capture	1.0	0.7
Downside Capture	0.4	-0.1
Beta	0.8	0.4
Correlation	0.8	0.5

An AUD Hedged series is provided to illustrate relative risk due to the relatively short US Dollar History

<sup>1</sup> Total Firm Infrastructure assets is comprised of the Select Infrastructure strategy and Core Infrastructure strategy.

<sup>2</sup> Returns are for the Global Core Infrastructure Composite in USD. The Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities NTR Index and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index.

<sup>3</sup> Risk measures are for the Global Core Infrastructure Hedged in AUD composite. The Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged). The Global Equity Index is the MSCI World NTR Index (AUD Hedged).

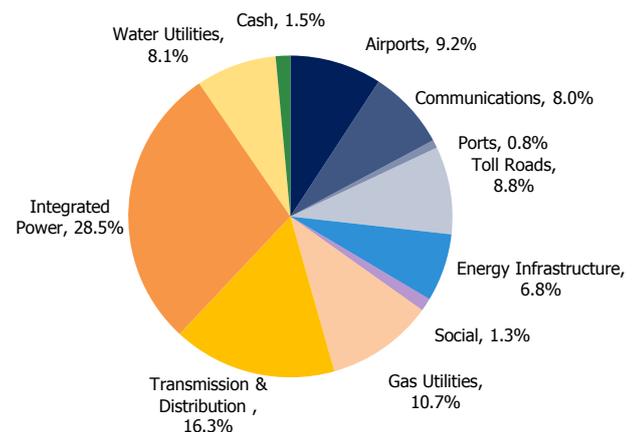
<sup>4</sup> The exposures are by domicile of listing. Representative portfolio.

\* Returns are only for part year.

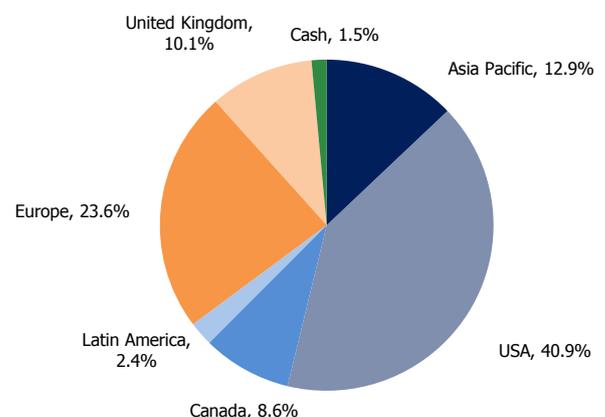
## Top 10 Holdings<sup>4</sup>

	Sector	%
Power Assets Holdings	Integrated Power	3.2
National Grid PLC	Transmission and Distribution	3.1
Atlantia SpA	Toll Roads	3.0
Transurban Group	Toll Roads	3.0
SES GDR	Communications	2.9
Snam Rete Gas SpA	Gas Utilities	2.9
TransCanada Corp	Energy Infrastructure	2.6
United Utilities Group Plc	Water Utilities	2.4
Abertis	Toll Roads	2.4
Enbridge Inc	Energy Infrastructure	2.4
	<b>TOTAL</b>	<b>28.0</b>

## Industry Exposure<sup>4</sup>



## Country Exposure by Domicile of Listing<sup>4</sup>



## Performance

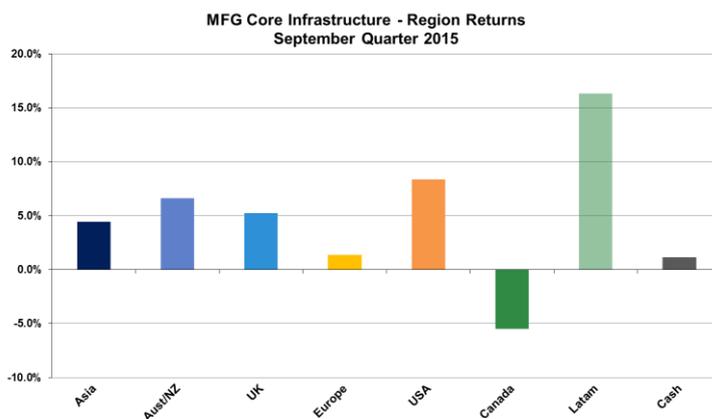
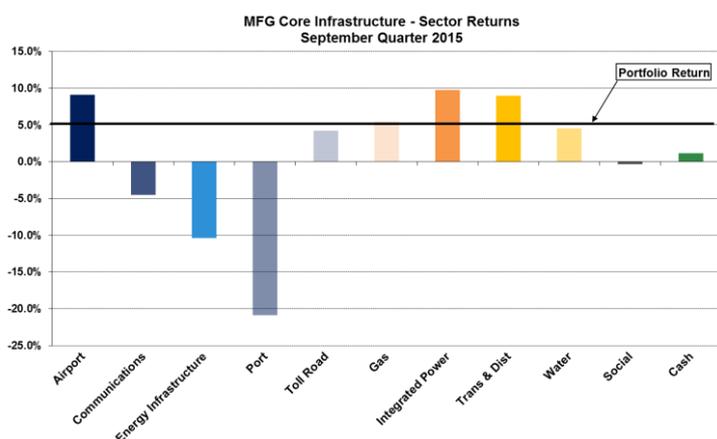
Over the September 2015 quarter, in US dollar terms, the Strategy returned +2.5% before fees. This was 9.7% better than the benchmark return of -7.2%. This brought the 1 year return to 30 September 2015 for the Strategy to +3.0%, 9.9% better than the benchmark return of -6.9%. The Strategy also outperformed global equities over the year to 30 September 2015 with the MSCI World NTR USD Index returning -5.1%.

The result for the quarter was a reaffirmation of the importance of MFGAM'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 Strategy. 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 MFGAM's infrastructure universe.

The best performing sectors held by the Strategy were Integrated Power (average Total Shareholder Return of +10.4%), Airports (+9.9%) and Electricity Transmission & Distribution (+9.0%). Offsetting this was the Energy Infrastructure sector (-10.8%) and Communications (-4.6%). Geographically, all regions except Canada delivered positive returns with Latin America (primarily Mexico) the strongest (+18.9%). The best performing stocks were US utility Teco Energy (+50.2%) due to a takeover bid, Mexican Airport company GAPB (+38.4%), Sydney Airport (+19.7%) and US utilities WEC Energy (+16.7%), Consolidated Edison (+16.6%) and Idacorp (+16.1%). Negative performance during the quarter were experienced by Dutch oil & gas tank storage company Vopak (-21.2%), German port Hamburger Hafen (-19.0%), North American oil & gas pipeline companies TransCanada (-15.8%) and Enbridge (-14.5%).

In regard to stocks included in commonly used infrastructure indices but excluded from MFGAM's infrastructure investment universe, US oil & gas MLP pipeline companies were down an average 22.4% for the quarter with downturns also experienced by Chinese listed infrastructure stocks (-31.6%), Hong Kong listed infrastructure stocks (-16.9%), US/Canadian rail companies (-8.1%), competitive power generation companies in the US (-7.3%) and Europe (-6.4%), Japanese rail companies (-8.2%) and Japanese energy utilities (-4.3%).

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



### Listed infrastructure performance in volatile markets

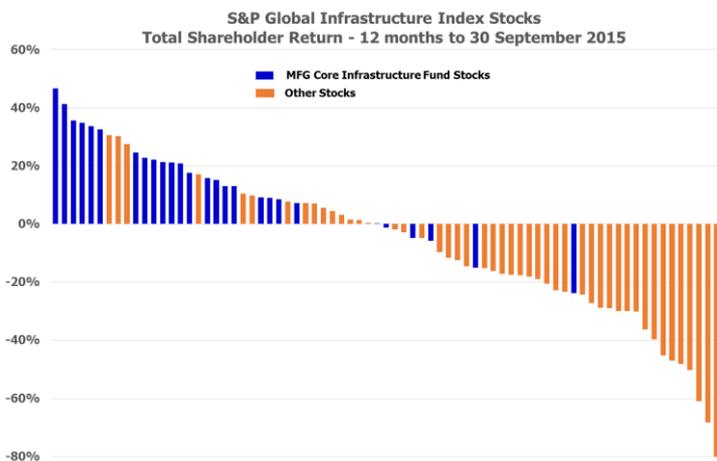
We've seen unsettled markets during the quarter as concerns about both growth and the broader outlook for China following their currency devaluation had a material impact on global markets, especially emerging markets who faced prospects of reduced demand for their products from China. The Federal Reserve 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 MFGAM'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 us relative to other stocks in commonly accepted infrastructure indices. The performance narrative above clearly demonstrates the relative and absolute outperformance of the Strategy 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 approximately 75 stocks in the relevant benchmarks, in local currency terms, with those stocks invested in by the Strategy highlighted in blue.



The graph highlights the benefits and results of our approach to definition, with most of the MFGAM 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 Strategy over the year and the most recent quarter as outlined in the quarterly performance commentary above.

## Outlook and Strategy

The Strategy remains consistent with previous periods and is not expected to change over the long term.

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. We expect that the Strategy 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.

## IMPORTANT NOTICE

This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited 'doing business as'/trading as' MFG Asset Management ('MFGAM') and an investment fund or investment strategy managed by MFGAM ('Strategy'). No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice.

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's 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's ability to withdraw and transfer interests in the Strategy. In making an investment decision, you must rely on your own examination of any offering documents relating to the Strategy.

No representation or warranty, express or implied, is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. MFGAM will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages.

This material is strictly confidential and is being provided to you solely for your information and must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of MFGAM. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any licence or right to use any trademark displayed without the written permission of the owner.

Performance is compared to the Global Infrastructure Benchmark which comprises of the following: from inception to 31 December 2014, the benchmark is UBS Developed Infrastructure & Utilities Index NTR Index and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index. Both indices are market capitalisation weighted indices that are designed to measure the 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.

United Kingdom - This material does not constitute an offer or inducement to engage in an investment activity under the provisions of the Financial Services and Markets Act 2000 (FSMA). This material does not form part of any offer or invitation to purchase, sell or subscribe for, or any solicitation of any such offer to purchase, sell or subscribe for, any shares, units or other type of investment product or service. This material or any part of it, or the fact of its distribution, is for background purposes only. This material has not been approved by a person authorised under the FSMA and its distribution in the United Kingdom and is only being made to persons in circumstances that will not constitute a financial promotion for the purposes of section 21 of the FSMA as a result of an exemption contained in the FSMA 2000 (Financial Promotion) Order 2005 as set out below. This material is exempt from the restrictions in the FSMA as it is to be strictly communicated only to 'investment professionals' as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO).

United States of America - This material is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of MFGAM to create legal relations on the basis of information provided herein.

## GIPS® DISCLOSURE

MFGAM 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 MFGAM. The MFG Core Infrastructure composite is a global strategy investing in strictly defined or "pure" infrastructure companies (typically 80-120). 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](mailto:data@magellangroup.com.au). A compliant presentation can also be obtained by emailing this address.

^ 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 selection 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 portfolio.