March 2009

Magellan Infrastructure Fund offers investors an opportunity to invest in a specialised and focused global infrastructure fund.

Objectives:

- To achieve superior risk adjusted investment returns over the medium to long term; and
- To minimise the risk of permanent capital loss.

We aim to find outstanding companies at attractive prices. We consider outstanding companies to have the same characteristics as those targeted by other Magellan funds, i.e. wide economic moat, high re-investment potential, low business risks and low agency risks.

Specifically, we look for companies that:

- own infrastructure assets that are subject to very limited (if any) competition;
- operate within a clearly defined legal and political framework that provides a level of contractual certainty for their assets' operations; and
- have clearly defined capital expenditure and asset acquisition policies.

We anticipate that the portfolio will compromise 15-35 individual investments with the portfolio weighted towards our highest conviction investment ideas.

Portfolio Manager
Gerald Stack

Structure
Global infrastructure securities fund, $A hedged

Fund Size
$29.6 Million as at March 31 2009

Minimum Investment
$20,000 ($10,000 with regular investment plan)

Contribution Fee*
Maximum of 1.25%

Buy/Sell Spread*
0.25%/0.25%

Management Fee*
0.96%p.a.

Administration Fee*
0.10%p.a.

Performance Fee*
10.10% of excess return over relative hurdle (UBS Global Infrastructure and Utilities Index Net Total Return ($A Hedged)) subject to an absolute return hurdle (Australian Government 10-year bond yield). Additionally, the Performance Fees are subject to a high water mark. Any Performance Fee will be reduced to the extent that it causes the total return to fall below any of the above measures.

*All fees are inclusive of the net effect of GST

Portfolio Summary

Key Holdings as at March 31 2009
Abertis Infra SA
Atlantia S.p.A
Cintra Concesiones
Macquarie Communications Infrastructure Group
Macquarie Infrastructure Group
NSTAR
Red Electrica Espana
Transurban Group

Contact Us

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MAGELLAN
INFRASTRUCTURE

Revisiting the Investment Case for Infrastructure

The OECD has recently published a study that examines if pension funds should invest in infrastructure on a theoretical basis, whether they do in practice, and, if not, how (and if) regulators can encourage and assist them to do so.

The following is an extract from that paper that we believe succinctly describes why an allocation to infrastructure in any portfolio makes sense.

"Infrastructure assets typically show one or more of the following stylized economic characteristics, including:

- High barriers to entry
- Economies of scale (e.g. high fixed, low variable costs)
- Inelastic demand for services (giving pricing power)
- Low operating cost and high target operating margins
- Long duration (e.g. concessions of 25 years, leases up to 99 years).

From this, the investment industry deduces a number of favourable investment characteristics of infrastructure assets:

- Stable and predictable cash flows
- Long term income streams
- Often inflation-linked (helping with liability-matching)
- In some countries, tax-effective
- Returns insensitive to the fluctuations in business, interest rates, stock markets
- Relatively low default rates
- Low correlations with other assets classes (offering diversification potential)
- Socially responsible investing (SRI) (providing public goods essential to society)."

While the operating performance of infrastructure assets has generally behaved much as described above, i.e. relatively robust earnings despite many countries already being in a severe recession, the share prices of most infrastructure companies have fallen significantly in recent times. Indeed, the sector has only marginally outperformed the broader equity market over the last twelve months despite earnings streams that are far more resilient to economic downturns. We believe that this reflects the market's (generally) over-zealous concerns with the debt held in infrastructure assets.

Debt levels, particularly for greenfield toll road assets, have been pushed to unreasonable levels. This has, at least in part, been due to investors being offered seemingly attractive equity investment rate of returns generated simply by adding gearing. In our experience, even relatively sophisticated investors failed to fully appreciate that increased gearing resulted in increased risk and consequently no increase in risk-adjusted returns.

But that is not to say that all debt is bad. In fact, the high levels of capital expenditure required for infrastructure projects and the predictability of resultant earnings have meant that infrastructure and utility assets have historically carried higher levels of gearing than average industrial companies. Utilities in developed countries have; for many years, been regulated by government agencies on the assumption that they would be structured on or around a 50:50 debt:equity capital structure.

There are a number of important advantages to debt:

1. It is beneficial in periods of high inflation (providing interest rates are largely hedged, as is common in the infrastructure sector);
2. It provides tax advantages;
3. It reduces or eliminates the need to attract additional equity when used to fund expansion capex; and
4. It provides a discipline on senior management to sensibly manage cash flows.

Magellan believes that as debt markets stabilise, those infrastructure stocks with the potential to produce robust earnings through a long and deep recession will return to favour just as they have in previous recessions. Our portfolio is positioned accordingly.

Fund Performance

The net return from the Magellan Infrastructure Fund for the March 2009 quarter was negative 8.7% whilst over the quarter the benchmark return was negative 13.6% (UBS Developed Infrastructure & Utilities Net Total Return Index $A Hedged). The Fund has performed broadly inline with this index since inception on 1 July 2007, despite our portfolio management approach being completely index agnostic.

Performance Summary as at March 31 2009

	1 Month	3 Months	6 Months	S.I (p.a)*
Magellan Infrastructure Fund	9.52%	(8.66%)	(25.99%)	(24.22%)
UBS Global Infrastructure & Utilities	(0.49%)	(13.60%)	(23.30%)	(20.68%)
UBS 50-50 Global Infrastructure & Utilities	1.00%	(11.87%)	(24.33%)	(24.27%)
UBS Global Real Estate Investors	2.89%	(24.51%)	(53.48%)	(44.48%)
S&P ASX 200 Accum	7.98%	(1.98%)	(19.87%)	(23.80%)

All global indices are Net Total Return AUD Hedged (excluding MSCI World; which is unhedged)
Total Returns are based on exit price to exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax and contributions fees (if applicable). Fund inception 1 July 2007.
* S.I = Since Inception of Magellan Infrastructure Fund