

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 comprise 15-35 individual investments with the portfolio weighted towards our highest conviction investment ideas.

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Portfolio Manager

Gerald Stack

Structure

Global infrastructure securities fund, \$A hedged

Minimum Investment

\$20,000 (\$10,000 with regular investment plan)

Buy/Sell Spread*

0.25%/0.25%

Management Fee*

0.96%p.a.

Administration Fee*

0.10%p.a.

Performance Fee*

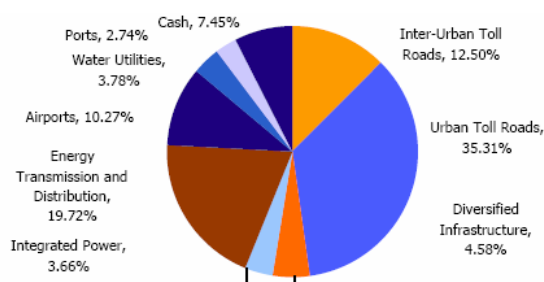
10.10% of excess return over the higher of the Index Relative hurdle UBS Developed Infrastructure & Utilities Net TR Index (\$A Hedged) and the Absolute Return Hurdle the (Australian Government 10-year bond yield). Additionally, the Performance Fees are subject to a high water mark. Any Performance Fee 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 December 31 2009
Abertis
American Water Works
Atlantia
Brisa
ConnectEast
Ferrovial
Macquarie Infrastructure Group
National Grid
Red Electrica
Transurban Group

Industry Breakdown



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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.

Market Commentary

Our investment philosophy is to invest in infrastructure assets where, based on an analysis of fundamental characteristics, we assess a value significantly above the share price. We believe that over time, the share price will reflect the fundamentals affecting the underlying assets. The Fund has made a significant allocation to toll roads and airports and we detail our views in respect of the impact of the of these two fundamentals these key segments of the infrastructure market.

Market Commentary (continued)

AIRPORTS

Airports typically offer investors the opportunity to invest in a business which has an effective monopoly over the aviation transport in a particular region. Airports derive revenue by charging passengers a fee for using the airport and by participating in the profits generated from commerce that takes place in the airport (e.g. car parks and retail shops both generate profit from their airport activities and the airport is able to share in this profit).

However, in the short-term, an economic recession can affect an airport in two ways: firstly, a decline in economic activity can lead to a reduction in the number of people flying; and secondly, a decline in the amount of money passengers spend in an airport. However, these are short-term impacts and, over the long-term, passenger growth can be expected to revert to trend as operating conditions improve.

TOLL ROADS

While the revenue derived by a toll road grows in line with the level of traffic and the prevailing level of tolls, operating expenses are generally a small proportion of total revenues and the requirement for capital expenditure is limited. Hence, the factors that most affect the value of a toll road are the level of traffic using the road and the level of tolls.

Generally, toll roads have a legally binding agreement with the appropriate government entity that allows them to increase tolls in line with inflation. While typically an increase in price for a good or service can be expected to lead to a reduction in demand, history suggests that an increase in tolls has minimal effect on the level of traffic.

Despite the economic downturn, to this point the majority of toll roads we review have continued to grow revenue with toll increases often offsetting falls in traffic.

Portfolio Commentary

The Fund returned 9.53% for the quarter, significantly ahead of the benchmark index. Major contributors were the airport and toll road sectors led by Macquarie Airports, Auckland and Zurich Airports, ConnectEast and Italian toll road company, SIAS.

December quarter capped off an excellent year for the Fund which provided investors with a return of 24.15% in 2009, 14.20% better than the benchmark index.

At 31 December 2009, toll roads made up 48% of the Fund's investments. The majority of this was invested in intra-urban toll roads, as we believe the high proportion of privately owned vehicle traffic on such roads makes their earnings more predictable. It is our view that the long-term prospects for toll roads remain strong and that, at current prices, many listed toll roads offer a compelling investment opportunity.

Performance Summary as at December 31 2009

	3 Month	6 Months	1 Year	2 Years	S.I (p.a)*
Magellan Infrastructure Fund	9.53%	24.54%	24.15%	(9.53%)	(6.89%)
UBS Global Infrastructure & Utilities	4.87%	15.63%	9.96%	(10.74%)	(6.36%)
Excess Return	4.66%	8.91%	14.20%	1.21%	(0.53%)

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