ANNUAL INVESTOR REPORT

30 JUNE 2008

Magellan Infrastructure Fund

Investment Manager's Report

DEAR INVESTOR

I am pleased to write to you as an investor in the Magellan Infrastructure Fund for the year ended 30 June 2008.

The year in review was a tumultuous one across all financial markets. Of particular importance to infrastructure and utilities stocks was unprecedented oil price levels combined with massive credit market turmoil. These two factors weighed heavily on sentiment towards the sector but particularly towards toll road and airport stocks.

For the year to 31 June 2008 the market benchmark, the UBS Global Infrastructure & Utilities Net Total Return ($A Hedged) Index, returned -0.4% which compared to the net fund return of -16.7%. The underperformance of the fund relative to the benchmark primarily reflects the allocation of the majority of the fund's capital to infrastructure assets rather than utilities. The Utilities segment of the Infrastructure and Utilities universe returned 2.3% for the 12 months to 30 June 2008 while the Infrastructure segment returned -18.8% over the same period. The factors behind these relative returns are discussed further in this letter.

During times of market volatility, as we have experienced over the last year, investors are often provided with opportunities to buy quality companies at very low prices. While the weighting to infrastructure assets hurt the fund's performance over the last year, we are very confident that the portfolio will provide attractive returns over a 3 to 5 year timeframe.

PORTFOLIO SUMMARY

As at 30 June 2008 the portfolio consisted of 16 investments and we maintained a high cash weighting of approximately 24%. The high cash weighting reflects our relatively measured approach in constructing the portfolio and our concerns regarding the likely implications of the global liquidity crisis which began to emerge last August.

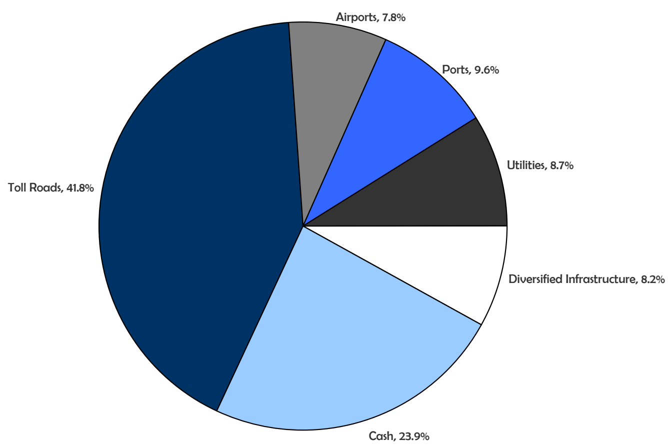
As previously outlined, the infrastructure universe can be broadly divided into 2 key segments:

1. *Utilities* – Companies that provide basic services such as gas, electricity and water. Utilities are typically subject to strict regulation by government sponsored entities that effectively caps the total return that the utility can generate from the provision of its product to customers. In the event that conditions change detrimentally and regulated utility prices are insufficient to sustain the financial returns approved by the regulator, the utility has an opportunity to adjust its pricing to ensure actual returns remain commensurate with the approved returns. Accordingly, utilities typically provide stable returns with limited opportunity to create or destroy value; and

2. *Infrastructure* – Infrastructure companies include all traditional classes of infrastructure assets excluding utilities. The major categories of infrastructure assets are toll roads, airports, ports, communications infrastructure and rail. The majority of transportation assets face regulatory regimes that allow the infrastructure asset to generate excess returns. For example, while the majority of toll roads are restricted from increasing their tolls by no more than inflation, an increase in traffic volumes enables the toll road to increase revenues at a faster rate than inflation. Thus provided costs do not increase by more than inflation and traffic growth is maintained, toll roads will progressively increase their returns over time.

At the current time it is Magellan's assessment that infrastructure assets are available at more attractive prices than utilities. As a result the portfolio has a significant weighting to infrastructure assets.

Magellan Infrastructure Fund at 30 June 2008



Magellan Infrastructure Fund - Top 10 Holdings as at 30 June 2008
Atlantia SpA
Brisa SA
Cintra Concesiones
ConnectEast Group
Fraport AG
Macquarie Communications Infrastrucutre Group
Macquarie Infrastrucutre Group
NSTAR
Port of Tauranga Limited
SIAS SpA

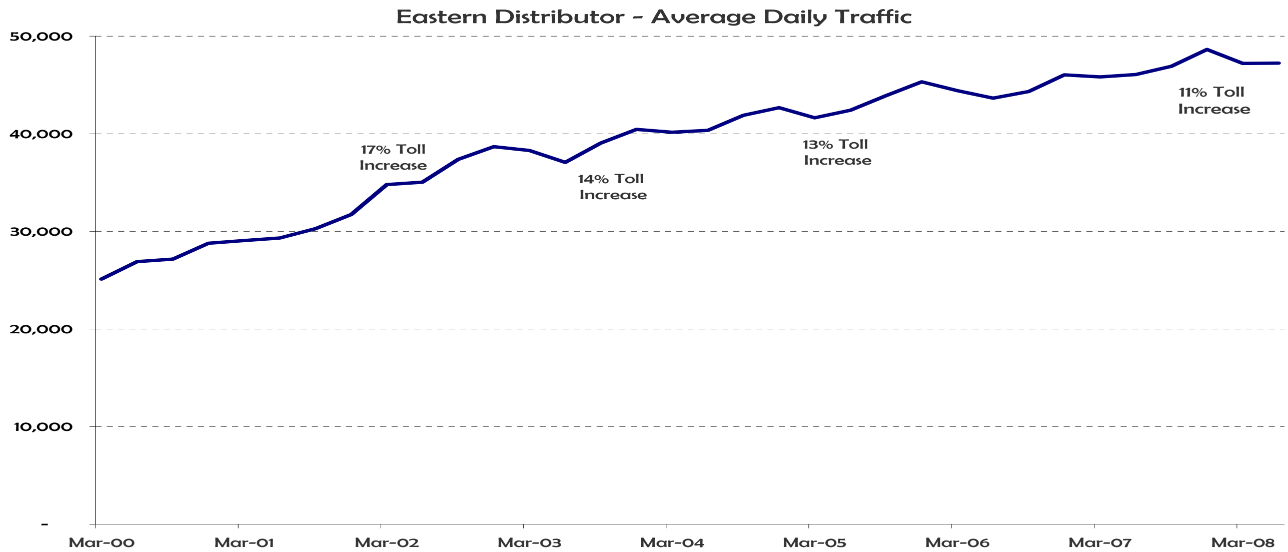
As at 30 June 2008 close to 50% of the fund's assets were invested into transport assets (toll roads and airports) with 23.9% being held in cash.

MARKET COMMENTARY

The drivers of share price performance can be divided into the underlying operating and financial performance of the asset and market sentiment. In FY08 the operational performance of infrastructure assets has been robust (this is discussed in more detail below). However, market sentiment towards the infrastructure sector has been overtly negative with investors becoming increasingly concerned with the outlook for infrastructure assets as a result of the potential impact of:

- record oil prices on the levels of road traffic and airline services;
- regional and global recession upon patronage levels at airports and container volumes at ports; and
- where applicable, high debt levels and low liquidity levels.

While sentiment towards infrastructure stocks soured during the year, the performance of most toll road and airport assets demonstrated what, for Magellan, was expected resilience through this period. For instance, the chart below shows traffic levels on Sydney's Eastern Distributor toll road over the period January 2000 to June 2008. The Eastern Distributor is majority owned by Transurban Group.



Despite record fuel prices and an 11% increase to the toll price that was implemented on 1 April 2008 (so that the toll for this 1.7km toll road jumped to $5.00), traffic in the June 2008 quarter increased by more than 2% over the previous corresponding period.

There are few discretionary products that experience increased demand after such a substantial price increase.

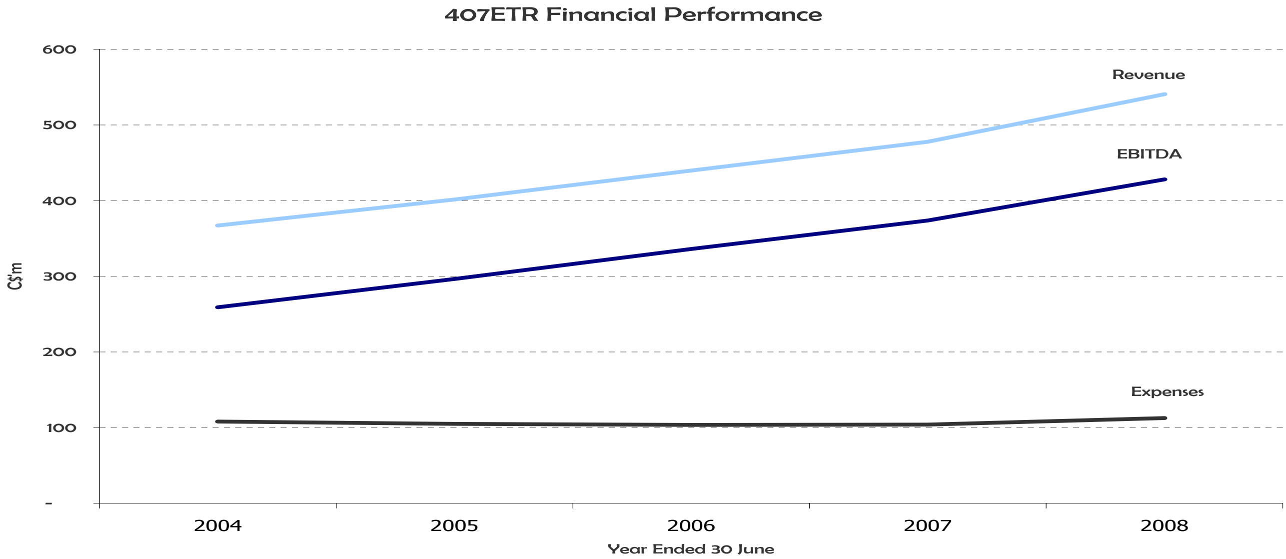
Magellan believes that, provided oil prices do not escalate significantly from current levels, the impact of higher oil prices on toll road usage will be relatively short-lived. Certainly, this has been the experience for previous oil price increases.

Petrol Prices in June 2008			
	Changes Since January		
Country	2003	2007	2008
USA	188%	87%	28%
Canada	94%	59%	28%
UK	48%	35%	13%
Euro Average	45%	25%	10%
Aust	59%	20%	5%

Source: Magellan research, UK Automobile Association

It is also worth noting that, with the depreciation of the US$, fuel prices have increased much more in the US than they have in the UK, Europe and Australia. The opposite table demonstrates this clearly. Not surprisingly, traffic declines in the USA have been more pronounced to this point compared to traffic levels in Europe or Australia.

Magellan also believes that, while a recession will have an impact on traffic levels on roads that service travel between cities, the impact on most other roads will be limited. An example of an inter-city toll road investment is APRR which owns approximately 70% of the French motorway system and largely services road travel between French cities. Macquarie Infrastructure Group ("MIG") has invested in APRR (which accounts for approximately 10% of MIG's value), and in a sustained economic downturn, we forecast that traffic on this road system will experience a modest decline. Conversely, the robustness of the 407ETR, a toll road in Toronto, Canada that is the largest single asset held within the fund, is illustrated in the following graph.



Magellan expects that the effects of both higher oil prices and a potential recession will impact the level of passenger throughput at major airports and we have allowed for that in our forecasts. However, we note that in recent months the level of aviation traffic has continued to grow. In June 2008, total international airline passenger kilometres flown increased by 6.0% over the previous corresponding period with North America up 8.2%, Europe up 4.1% and Asia/Pacific up 4.5% (source: IATA). Notwithstanding the robust recent performance of airports and the positive structural and economic factors faced by such assets, the reduction in the market price of most listed airports has been significant.

The Australian infrastructure stocks have been particular hard hit by credit market turmoil that has caused significant problems for a number of property trusts as well as investment banks such as Allco and Babcock & Brown. These problems had a contagion effect on a number of infrastructure stocks that were perceived to have high debt levels. However, the operational and financial performance of most infrastructure stocks over the last year has been more than adequate to justify current levels of gearing. Additionally, the stocks in the fund have largely hedged their debt exposures and have low levels of debt maturing over the next 2 years. It is our assessment that the companies that we have invested in will be able to service debt under even highly stressed scenarios and we also believe these entities will have few problems refinancing any debt tranches that need to be rolled over.

In summary, we strongly believe the stocks in the fund will deliver attractive returns to investors over a 3 to 5 year timeframe as fear is replaced by the rational understanding of the robust nature of the earnings of infrastructure assets through economic cycles. It is our assessment that the prices offered by some of our favoured stocks offer a unique opportunity to acquire companies with extremely positive investment fundamentals at attractive prices.

Yours sincerely,

Gerald Stack
Portfolio Manager
Magellan Infrastructure Fund
July 2008

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