

Magellan Infrastructure Fund (Unhedged)

Fund Update: 30 September 2013

Key Facts

Portfolio Manager
Gerald Stack

Structure
Infrastructure Fund, Unhedged

Inception date
1 July 2013

Performance Fee¹

10.0% of excess return over the higher of the Index Relative hurdle (UBS Developed Infrastructure and Utilities Net Total Return Index and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.

¹All fees are exclusive of the net effect of GST

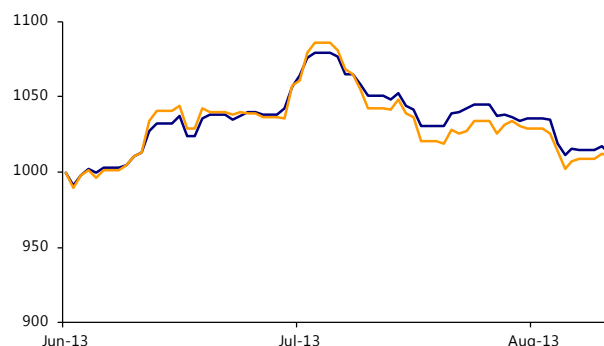
Management and Administration Fee ¹
1.05% p.a.

Buy/Sell Spread¹
0.15%/0.15%

Fund Size
AUD \$10.1 million

Performance Chart Growth of AUD \$1,000²

■ Magellan Infrastructure Fund - Unhedged ■ Index³



Performance²

	Fund %	Index % ³	Excess Return %
1 Month	0.2	0.1	0.1
3 Months	3.7	2.9	0.8
Since Inception	3.7	2.9	0.8

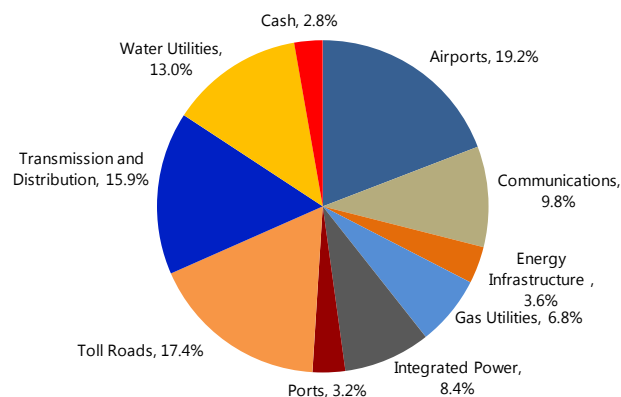
Top 10 Holdings

	Sector	% of Fund
Transurban Group	Toll Roads	9.2%
Fraport	Airports	6.8%
National Grid	Transmission and Distribution	6.2%
Atlantia	Toll Roads	6.1%
SES	Communications	6.0%
Auckland Airport	Airports	5.4%
Zurich Airport	Airports	5.3%
American Water Works	Water Utilities	3.8%
Eutelsat Communications	Communications	3.8%
Enbridge	Energy Infrastructure	3.6%

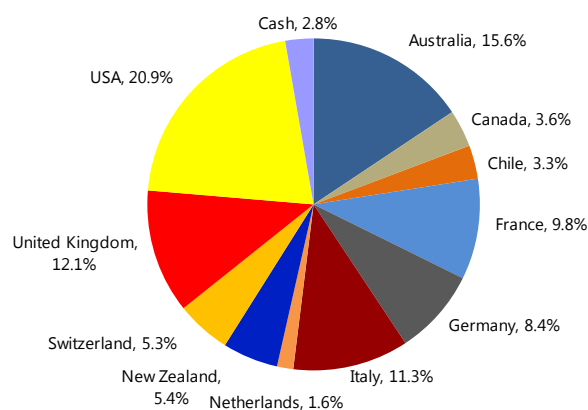
Regional Breakdown⁴

	% of Fund
North America	27.7
Europe ex-UK	31.8
United Kingdom	14.1
Developed Asia	0.1
Emerging Markets	4.6
Australia	13.3
New Zealand	5.4
Other	0.2
Cash	2.8
Total	100

Industry Breakdown



Country Exposure by listing



²Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable) Fund Inception 1 July 2013.

³UBS Developed Infrastructure and Utilities Net Total Return Index.

⁴Calculated on a domicile of asset basis

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Important Information: Units in the Magellan Infrastructure Fund (Unhedged) ("Fund") are issued by Magellan Asset Management Limited (ABN 31 120 593 946, AFS Licence No 304 301). Past performance is not necessarily indicative of future results and no person guarantees the future performance of the Fund, the amount or timing of any return from it, or that it will achieve its investment objective. This material has been provided for general information purposes and must not be construed as investment advice. This material has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Investors should consider obtaining professional investment advice tailored to their specific circumstances and should read the relevant Product Disclosure Statement (PDS) prior to making any investment decisions. The PDS is available at www.magellangroup.com.au or can be obtained by calling 02 8114 1888.



Fund Commentary

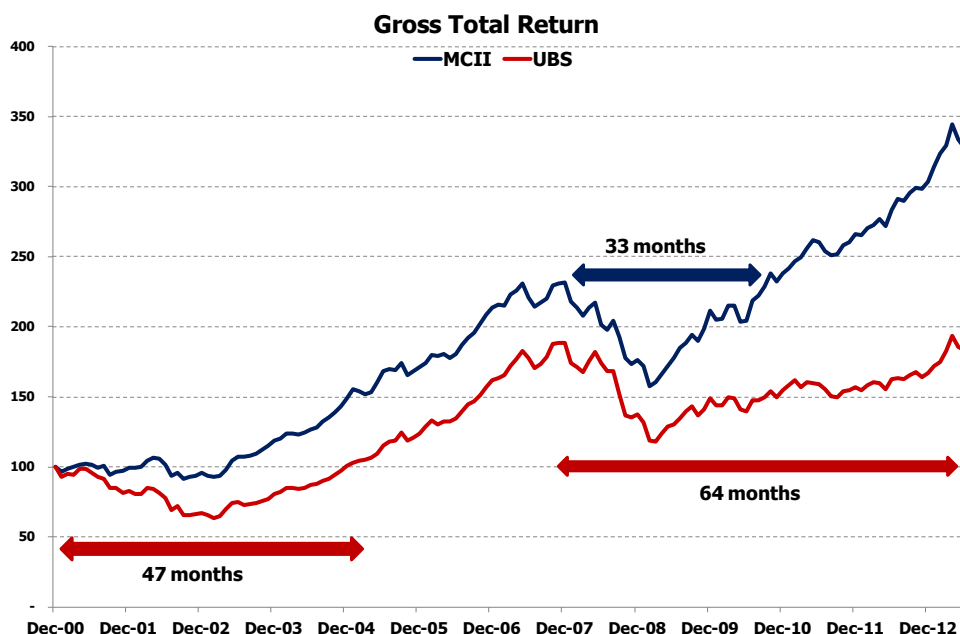
During the September 2013 quarter the Fund generated a net return of 3.7% compared to the return of the benchmark (UBS Developed Infrastructure & Utilities Net Total Return Index) of 2.9%.

The Fund's toll road and airport holdings provided strong returns during the quarter. Measuring in local currency, toll road exposures generated a weighted average Total Shareholder Return (TSR) of 9.0% and airports generated a weighted average TSR of 8.1%. The Fund's Gas Utilities also performed well with a weighted average TSR of 5.9%. Offsetting these results were modest or slightly negative returns from US & UK regulated electricity and water utilities, sectors that have provided very solid gains for the Fund over the last 5 years.

The Importance of Definition

Magellan believes that investors in infrastructure seek different risk and return characteristics than that available in other asset classes. As infrastructure assets provide services essential to the efficient functioning of communities they face predictable demand patterns. Provided there are no external factors affecting the infrastructure service provider (commodity prices, sovereign risk or competition) the predictable demand should translate to reliable earnings generation from the infrastructure asset. To ensure the earnings of infrastructure investments made by the Fund has the requisite reliability, Magellan excludes from its investment universe those companies whose earnings are materially affected by external factors.

The Fund's definition of what constitutes an investable "Infrastructure" asset class is more restrictive than that generally applied by index providers. This is well illustrated in the following graph which compares the performance of the Magellan approved infrastructure investment universe (the Magellan Core Infrastructure Index or MCII) to a commonly used benchmark index, the UBS Developed Markets Infrastructure & Utilities Index (UBS).



Source: MCII: Magellan Core Infrastructure Index (Local), UBS: UBS Developed Infrastructure and Utilities Net Total Return Index.

Key observations to note from the graph are:

- Since the start of the previous decade there have been two major equity market declines, the first at the beginning of that decade generally associated with the "tech-wreck" and the second in 2008 generated by a global credit market crisis.
- On the first occasion, returns from the Magellan Core Infrastructure Strategy were essentially unaffected while the UBS Developed Markets Infrastructure & Utilities Index fell 36% from its peak and took almost 4 years to return to its previous peak level.
- On the second occasion, the Magellan Core Infrastructure Index suffered material declines (being a credit market crisis, stocks with above average levels of leverage were clear victims of panic selling) along with the UBS Developed Markets Infrastructure & Utilities Index with the latter falling 47% from the peak while the MCII fell 42%. However, the MCII recovered that lost ground within 3 years (and has gone up a further 40% subsequently) while the UBS index has only just now recovered its lost ground, more than 5 years after its previous peak.

This history shows that by limiting the universe to investments with reliable earnings, the resultant investment portfolio may suffer poor performance when investment markets are volatile but it can be expected to recover market value relatively quickly due to the reliable, predictable nature of underlying earnings and cash flows.

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