

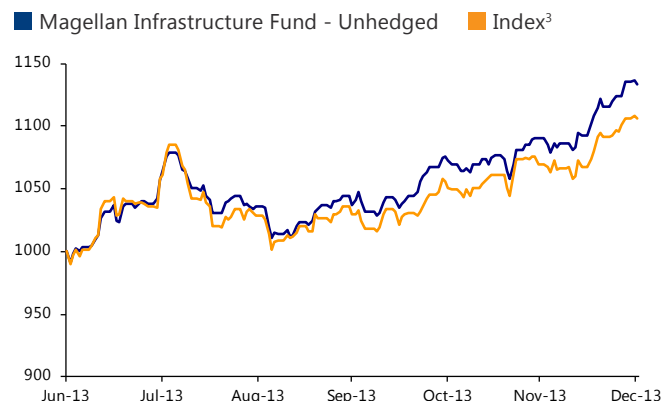
Magellan Infrastructure Fund (Unhedged)

Fund Update: 31 December 2013

Key Facts	Management and Administration Fee ¹
Portfolio Manager Gerald Stack	1.05% p.a.
Structure Infrastructure Fund, Unhedged	Buy/Sell Spread ¹ 0.15%/0.15%
Inception date 1 July 2013	Fund Size AUD \$30.6 million
Performance Fee ¹ 10.0% of excess return over the higher of the Index Relative hurdle (UBS Developed Infrastructure and Utilities Net Total Return Index (AUD) 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

Performance Chart Growth of AUD \$1,000²



Performance²

	Fund %	Index % ³	Excess Return %
1 Month	4.0	3.3	0.7
3 Months	9.3	7.4	1.9
6 Months	13.4	10.6	2.8
Since Inception	13.4	10.6	2.8

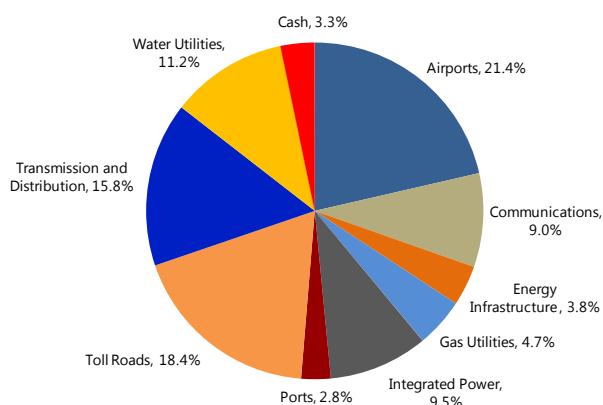
Top 10 Holdings

	Sector	% of Fund
Transurban Group	Toll Roads	9.2
Fraport	Airports	7.4
Atlantia	Toll Roads	6.9
National Grid	Transmission and Distribution	6.4
SES	Communications	5.8
Zurich Airport	Airports	5.4
Auckland Airport	Airports	5.3
Enbridge	Energy Infrastructure	3.8
Sydney Airport	Airports	3.3
Eutelsat Communications	Communications	3.2

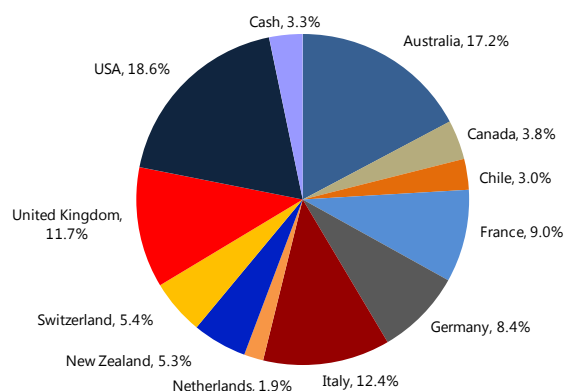
Regional Breakdown⁴

	% of Fund
North America	25.6
Europe ex-UK	33.0
United Kingdom	13.8
Developed Asia	0.2
Emerging Markets	4.3
Australia	14.3
New Zealand	5.3
Other	0.2
Cash	3.3
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 (AUD).

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

As at 31 December 2013, the Fund consisted of 30 stocks (compared to 29 stocks at 30 June 2013). The top ten investments represented 56.5% of the Fund at 31 December 2013 compared with 51.5% at 30 June 2013.

The Fund did not pay a distribution in respect of this six month period but is expected to pay a distribution in respect of future half years.

The major sector changes to portfolio composition during the period were a reduction in exposure to US utilities offset by an increase in the weighting of European transport infrastructure stocks. Over the course of the year we have found utilities in the better performing economies of the world (effectively the most defensive infrastructure investment opportunities) to have become progressively more expensive relative to other opportunities in the infrastructure investment universe. Accordingly, we have reduced the exposure to regulated utilities in the USA, and increased our exposure to airports and toll roads in Europe.

The last 12 months have witnessed the share-price recoveries of the utilities and infrastructure sectors that are often included in broader market definitions of infrastructure investment universe, but are outside the universe of stocks that we consider investment grade. These sectors, European integrated utilities with significant exposure to unregulated power generation and Japanese electric utilities, have been poor investments in previous years reflecting their inability through this period to generate reliable earnings.

The Risk of Increasing Interest Rates

In our view, the major risk currently faced by infrastructure and other asset classes is the impact on global money flows and bond yields as a result of the end of the quantitative easing programme (QE) run by the US Federal Reserve (Fed).

The past six months has witnessed a broad increase in underlying interest rates as investment markets have turned their focus to the prospect the Fed will end QE in the next couple of years. We expect interest rates to continue to rise over the medium term. Increasing interest rates represent a challenge for all investment classes and, whilst better placed than many asset classes, infrastructure is not immune from these risks. While prevailing interest rates have been well below historical averages since the global financial crisis, we do not believe that long-term infrastructure investors made their investment decisions during the period based on prevailing interest rates, but on a higher, more historically normal level of interest rates. As a consequence while increasing interest rates represent a risk for investors in infrastructure assets, we believe that the risk over the medium to long term is not that interest rates rise from present levels, but rather that they rise materially above "normal" levels.

The risks posed by an increase in interest rates are somewhat different for utilities as compared to infrastructure assets.

- **Utilities:** Utilities operate under a compact with their communities under which they provide reliable, efficient services while investing for the future. In return, the utility is able to earn a fair return on the capital invested in its operations. Utilities are not able to exploit their natural monopoly power but are protected from the fluctuations of the economic cycle and from changes in variables outside their control, such as interest rates. Ultimately, the key determinant of the level of returns generated by regulated utilities is the return approved by the utilities' regulator and, therefore, an increase in interest rates should lead to an increase in the approved rate of return, ensuring that the utility continues to be able to earn a fair return. However, a utility can suffer because of mismatches and lags between the increase in interest rates and the subsequent increase in the approved regulatory return. Regulatory rates of return have been sticky as interest rates have declined and we expect that there will also be stickiness as interest rates rise.
- **Infrastructure:** Infrastructure assets typically have an ability to pass through the effects of inflation through the price of the service provided; e.g. tolls on a toll road are normally linked to inflation. However, where an increase in interest rates is not accompanied by an increase in inflation, the cost of the debt can be expected to rise (with a lag if the debt interest costs are hedged), reducing the returns available to investors.

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