Magellan Infrastructure Fund

Fund Update: 30 June 2014

Key Facts

Portfolio Manager
Gerald Stack

Structure
Infrastructure Fund,
$A hedged

Inception date
1 July 2007

Management and Administration Fee[1]
1.05% p.a.

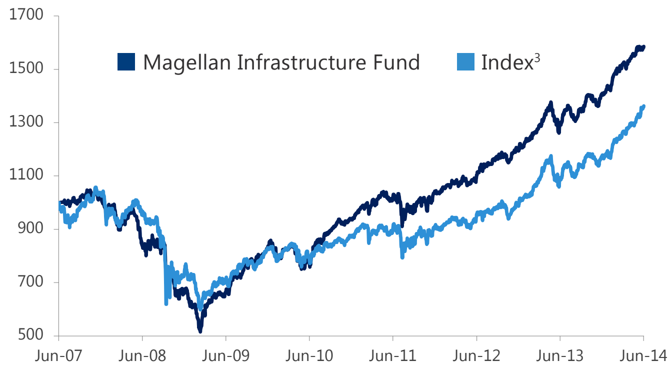
Buy/Sell Spread[1]
0.15%/0.15%

Fund Size
AUD $651.6 million

Performance Fee[1]
10.0% of the excess return of the Units of the Fund above the higher of the Index Relative hurdle (UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to 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.

[1]All fees are exclusive of the net effect of GST

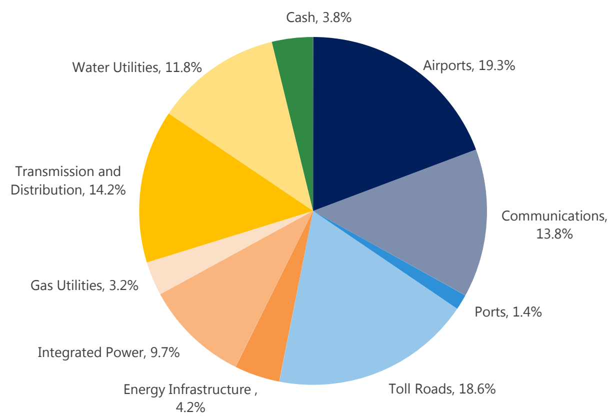
Performance Chart Growth of AUD $1,000[2]



Performance[2]

	Fund %	Index %[3]	Excess Return %
1 Month	0.3	3.3	-3.0
3 Months	4.5	7.6	-3.1
6 Months	12.4	15.7	-3.3
1 Year	22.0	24.6	-2.6
2 Years (p.a.)	19.9	19.4	0.5
3 Years (p.a.)	15.6	14.4	1.2
4 Years (p.a.)	19.9	15.1	4.8
5 Years (p.a.)	18.7	13.8	4.9
Since Inception (p.a.)	6.8	5.0	1.8
Since Inception	58.6	40.3	18.3

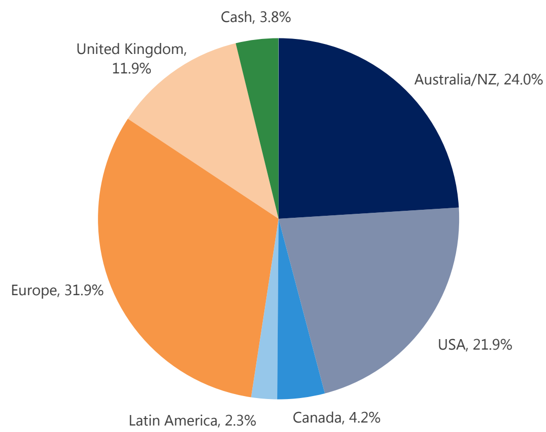
Industry Breakdown



Top 10 Holdings

	Sector	% of Fund
Transurban Group	Toll Roads	9.4
Atlantia	Toll Roads	6.7
National Grid	Transmission and Distribution	6.3
SES	Communications	6.2
Fraport	Airports	5.5
Sydney Airport	Airports	4.8
Zurich Airport	Airports	4.5
Auckland Airport	Airports	4.4
Enbridge	Energy Infrastructure	4.2
Crown Castle International	Communications	4.0

Country Exposure by domicile of listing[4]



[2]Calculations 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 2007.
[3]UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD)
[4]The exposures are by domicile of listing. It is the Fund's intention to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian Dollars.

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MAGELLAN
ASSET MANAGEMENT LIMITED

Fund Commentary

During the June 2014 quarter, the Magellan Infrastructure Fund ('MIF' or the 'Fund') returned +4.5% compared to the benchmark UBS index return of +7.6%. The return for the 12 months ending 30 June 2014 was 22.0% for MIF compared to 24.6% for the index. The underperformance in both periods is almost entirely explained by events during the month of June 2014, when MIF underperformed the index by -3.0%.

June 2014 saw very strong performance from sectors excluded from Magellan's relatively conservative definition of the infrastructure universe. For instance, the Japanese utilities in the UBS index generated a weighted average total shareholder return (TSR) of 4.5% for the month, while unregulated power generators delivered a 5.6% TSR.

The month also saw strong results from US utilities, with these stocks giving a weighted average TSR of 5.0%. MIF has a relatively small exposure to stocks domiciled in the USA, compared to the benchmark, as we view the US utilities market as expensive relative to other opportunities in the listed infrastructure and utilities investment universe.

The June quarter saw solid returns from all sectors, with the exception of ports. The best-performing stocks in MIF were UK water company United Utilities (TSR of +15.4%), US gas utility Atmos Energy (+14.1%), Italian toll road company Atlantia (+13.9%) and German port Hamburger Hafen (+13.9%). Weighing on MIF's quarterly return were global oil & chemical tank storage company Vopak (-9.7%), German airport company Fraport (-2.7%) and Zurich Airport (-2.4%).

Transurban

In our 2014 half yearly report to investors, we highlighted the strengths of Australian toll road company Transurban. Subsequently, we were pleased to participate in a large equity raising conducted by Transurban which was used to help fund a controlling interest in a consortium that acquired Queensland Motorways Limited (QML) for approximately A$7bn.

This was not an outstanding value accretive acquisition – in fact the price paid was very much in line with our own valuation. However, all toll roads, and particularly toll road networks such as QML, have inherent yet unquantifiable option value. Because of this, we expect that the price paid for these assets will look relatively cheap over time.

That option value is on display in Transurban's existing toll road networks in Sydney & Melbourne, where deals reached with local road authorities have seen the company investing capital to improve the capacity of its toll roads (and sometimes the surrounding road network) in return for toll increases and concession extensions that are significantly Net Present Value positive.

As a specific example, in 2010 Transurban reached agreement with the NSW Government to widen the M2 from two lanes in each direction to three and build additional access ramps. In return, the concession term was extended by four years and tolls were increased by approximately 8%. As a result our valuation of Transurban's equity in this asset increased by over 30%.

Outlook

Magellan believes that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer an attractive, long-term investment proposition. Furthermore, given the predictable nature of earnings and the structural linkage of those earnings to inflation, the investment returns generated by infrastructure assets are different from standard asset classes and offer investors valuable diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the reliable financial performance of infrastructure investments makes them particularly attractive and an investment in listed infrastructure can be expected to reward patient investors with a three- to five-year timeframe.

Magellan maintains a conservative approach to the management of this Fund. This will not change regardless of market conditions, as we strongly believe such a defensive posture reflects the role infrastructure should play in any portfolio. This may mean that the Fund underperforms the benchmark if markets continue to rise strongly, an outcome that would not cause us a moments discomfort.

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