MAGELLAN
ASSET MANAGEMENT LIMITED

HALF YEARLY INVESTOR REPORT

31 DECEMBER 2013

Magellan Core Infrastructure

Dear Investor,

The investment objective of the Magellan Core Infrastructure Strategy (the 'Strategy') is long-term capital appreciation. The Strategy's performance is measured against the UBS Developed Infrastructure & Utilities Net Total Return Index (Hedged to AUD).

Generally, infrastructure assets are natural monopolies that provide an essential service to a particular community. Infrastructure assets offer investors protection from the impacts of inflation because their earnings generally have some direct linkage to inflation. Over time, the stable, reliable earnings of infrastructure assets are expected to lead to a combination of income and capital growth for investors.

The return from the infrastructure universe (as defined by Magellan Asset Management Limited) was more than 10% p.a. for the decade to the end of 2013. Just under half of that return was in the form of dividend income.

The universe of infrastructure assets that are held by the Strategy are made up of two main sectors:

- **Utilities:** Utilities comprise approximately 74% of the Portfolio and includes both regulated energy utilities and regulated water utilities. Utilities are typically subject to economic regulation. The terms of regulation typically require a utility to efficiently provide an essential service to the community and, in return, permit the utility to earn a fair rate of return on the capital it has invested in its operations. As a utility provides a basic necessity, e.g. energy or water, there is minimal fluctuation in demanded volumes in response to the economic cycle, while the price charged for the utility service can be adjusted with limited impact upon demanded volumes. As a result, the earnings of regulated utilities have been, and are expected to continue to be, stable irrespective of economic conditions.

- **Infrastructure:** This includes airports, ports, toll roads and broadcast communications infrastructure. Regulation of infrastructure companies is generally less intensive than regulation of utilities and this allows companies to accrue the benefits of volume growth i.e. the returns of infrastructure companies are linked to growth in passengers, vehicles or containers. As economies develop, grow and become more inter-dependent, we expect the underlying level of aviation, shipping and vehicle traffic to increase. As a result, the revenues and earnings derived by infrastructure assets are expected to grow.

PERFORMANCE REVIEW*

The Strategy composite returned +7.1%, gross of fees, for the six month period ending December 31, 2013. The Strategy's return lagged the 7.7% return of its benchmark.

Most sectors held by the Strategy performed well during the period, with Toll Roads providing a Weighted Average Total Shareholder Return ('TSR') of 28% while Airports generated a TSR of 27%. The utilities sectors generated returns ranging from 11% for Water Utilities to 16% for Gas Utilities. The Communications sector (made up of two European satellite companies) provided a modest TSR of 6% while the Ports sector was the only exposure to generate a negative TSR of -16%.

Geographically, the Strategy's European exposures generated a TSR of over 22%, Australian/NZ stocks provided a TSR of 19% and US stocks returned 15%. The only market of significance to perform modestly was Canada which provided a TSR of just 2%.

The performance of the benchmark was positively impacted by strong share price surges from companies that, in previous years, had been very poor places to invest and which are excluded from the Strategy's investment universe. This particularly applied to the large European, vertically integrated energy utilities (that have a significant proportion of their earnings exposed to the competitive power generation sector) and regulated Japanese utilities (apparently acquired as a convenient way to play a yen currency strategy).

To illustrate the previous point, the following table shows the one and three year Total Shareholder Return of some of the top performing stocks in the benchmark index in 2013:

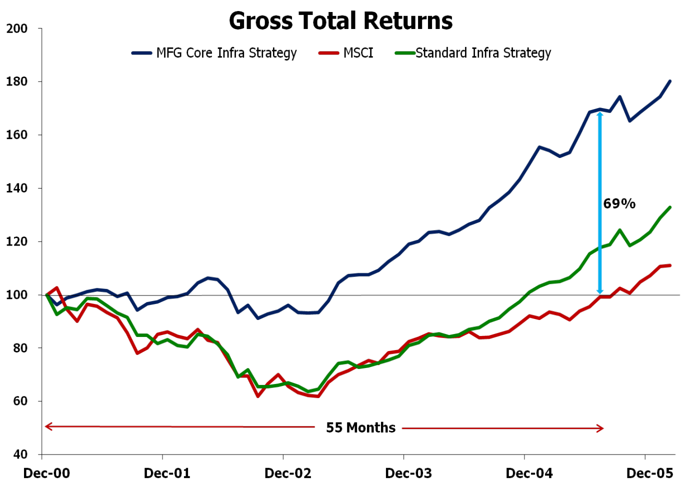
STOCK	1 Yr Return	3 Yr Return
Tokyo Electric Power	151%	-74%
A2A SpA	104%	-1%
Electricite de France (EDF)	95%	+1%
Public Power Corp	84%	+9%
Tohoku Electric Power	47%	-34%
Veolia	39%	-34%
Kyushu Electric Power	37%	-22%
Kansai Electric Power	33%	-36%
GDF Suez	20%	-20%

Source: Bloomberg.

KEY BENEFIT OF THE MAGELLAN CORE INFRASTRUCTURE STRATEGY

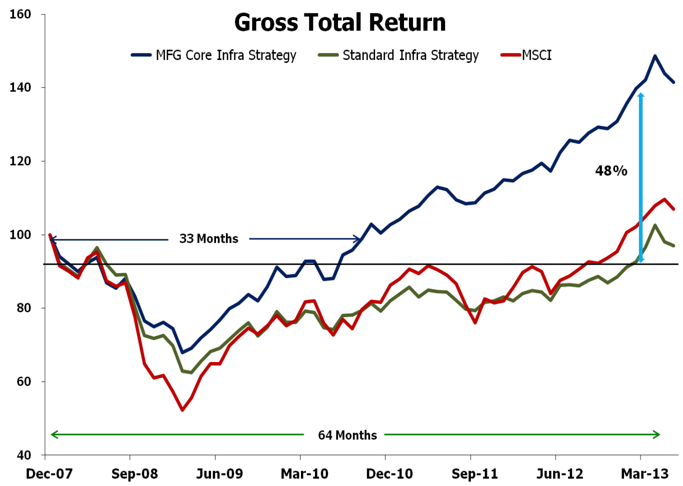
We believe that one of the key reasons for making a portfolio allocation to infrastructure as a separate asset class is to achieve a defensive diversification from broader equity markets. However, this is only true if one adopts a strict definition of what constitutes the asset class.

For instance, the following graph shows the USD returns from global equities (represented by the MSCI Total Return Index), Strategy and a more standard approach to defining what constitutes "infrastructure" (here using the UBS Developed Markets Infrastructure & Utilities Total Return Index) during and after the "tech-wreck" market in the first half of the last decade. Clearly, the Strategy provided a quite different return experience, while the standard approach was highly correlated with global equity markets.



Source: Bloomberg, Magellan Asset Management Limited.

A similar result can be seen in the most recent serious market downturn. On this occasion the returns from the Strategy were reasonably correlated with global equity markets, although not falling as far. This was because the downturn was the result of a credit market crisis, so any stocks with credit market exposure were sold off. The superior quality of the stocks in the Strategy meant that they recovered in approximately half the time of the more broadly-defined infrastructure universe. In contrast, the standard approach was, once again, highly correlated to global equities.



Source: Bloomberg, Magellan Asset Management Limited.

COMPANY IN FOCUS

Transurban

Transurban is an Australian stock that owns dominant positions in urban toll roads in Australia, a recently-opened toll road outside Washington DC and another in Virginia under construction. Transurban has been a holding in the Strategy since it launched in 2000.

In our view, Transurban owns one of the most attractive portfolios of toll roads of any company globally for three key reasons:

1. The roads are all urban toll roads. Urban toll roads have lower levels of truck traffic than inter-urban toll roads and are, therefore, much more reliable cash generators through the economic cycle.
2. As the following table highlights, the concessions allow a minimum of inflation-linked toll increases, with the more valuable assets allowing greater-than-inflationary increases.
3. The concessions generally have significant terms remaining.

ASSET	TRANSURBAN OWNERSHIP	CONCESSION ENDS	TOLLS INCREASE
CityLink, Melbourne	100%	2034	Greater of 4.5% pa or CPI to 2015 then CPI
M1, Sydney	75.1%	2048	Greater of 4.1% pa or basket of 62.5% Average Weekly Earnings & 37.5% CPI
M2, Sydney	100%	2046	Greater of 4.1% pa or CPI
M5, Sydney	50%	2026	CPI
M7, Sydney	50%	2037	CPI
Lane Cove Tunnel, Sydney	100%	2037	CPI
Cross City Tunnel, Sydney	100%	2035	CPI
495 Express Lanes, Virginia, USA	67.5%	2087	Dynamic based on usage – no cap*
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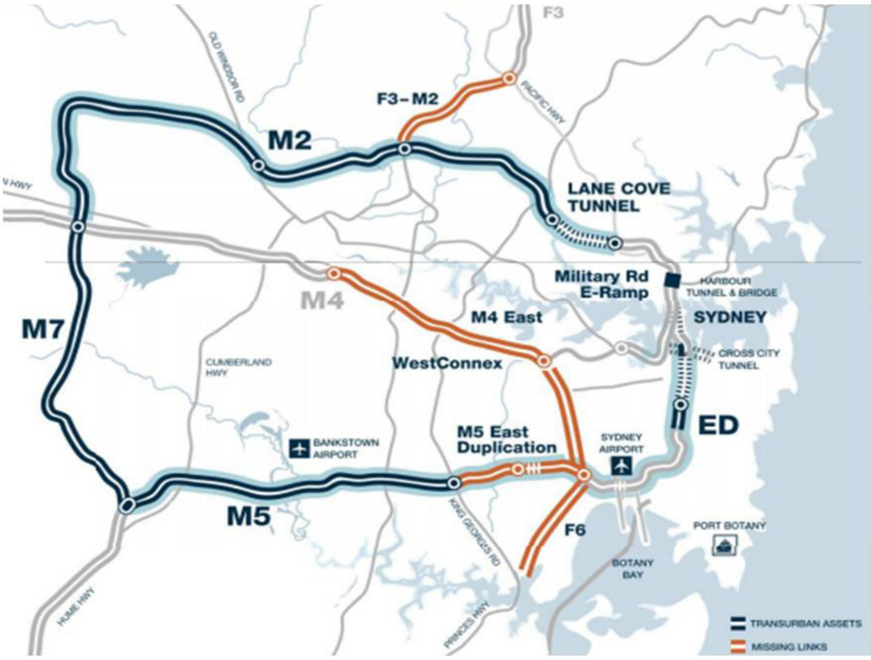
Source: Transurban.
*Both the 495 Express Lanes and the 95 Express Lanes are High Occupancy Transit lane toll roads where the toll changes according to the level of usage, i.e. the higher the demand the higher the toll. Tolls are not paid by vehicles with three or more occupants. The tolls increase to ensure that traffic on the express lanes flows freely even during peak periods.

The CityLink project in Melbourne, Australia was Transurban's first project. It provides the only freeway-standard by-pass of the downtown area of Melbourne, a city of more than 4 million people. The road links Melbourne's international airport to the downtown area as well as providing commuter access to suburbs to the north and south-east of the city.

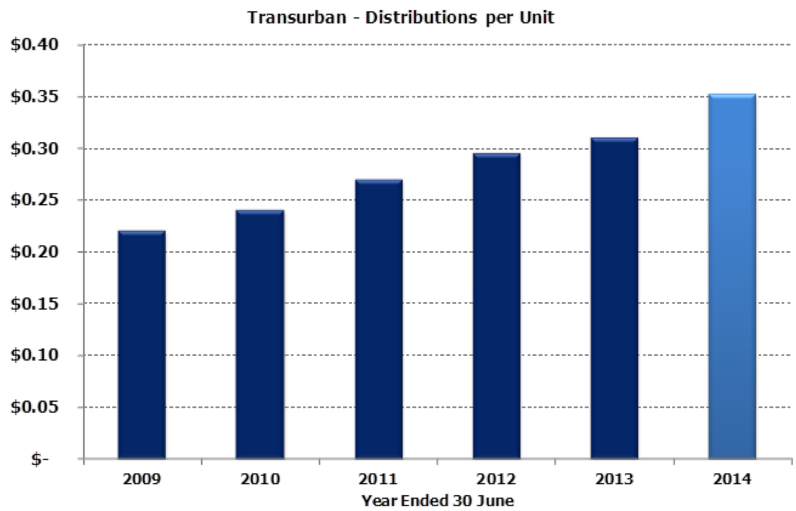
The map of Sydney, Australia below clearly illustrates Transurban dominant position in the Sydney toll road market, owning positions in every toll road within the Sydney basin, home to almost 5 million people.

While the value of Transurban's strategic dominance of the Sydney road system is impossible to quantify, it clearly provides numerous value enhancing options. For instance, Transurban is currently in exclusive negotiations with the State Government of New South Wales to build a connection between the M2 and the F3 Freeway (that links Sydney to Newcastle, the next largest city in the state of New South Wales). While yet to reach financial close, we expect this US$2.4bn deal to be favourable for Transurban shareholders.



Source: Transurban.

One of the key outcomes of these highly attractive investment characteristics is the confidence we can have in the free cash flow the assets will produce. The following graph shows the growth in Transurban's distributions since 2009 and consensus forecasts for the next 5 years. Over that period, distributions will have grown by 10% pa.



Source: Transurban, Magellan Asset Management Limited.

PORTFOLIO OUTLOOK AND STRATEGY

The Strategy aims to provide reliable returns over the medium-to-longer term. Excluding the impact of FX, we expect the Strategy to provide a gross return of inflation plus 5% to 6% over the medium term. The Strategy significantly exceeded that expectation during 2013, partly reflecting the recovery of stocks held by the Strategy that had been over-sold in previous years. We now see the utilities market as broadly in equilibrium while infrastructure stocks remain cheap.

We believe that infrastructure and utility assets, with requisite earnings reliability and a linkage of earnings to inflation offer attractive, long-term investment propositions. 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.

Yours sincerely,

Dennis Eagar
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Performance is compared to the UBS Developed Infrastructure & Utilities Net Total Return Index (Hedged to AUD) which is a market capitalisation weighted index that is designed to measure the equity performance of listed Infrastructure and Utility stocks. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The index is hedged to Australian dollars.

*Returns presented are for the Strategy's composite – the Magellan Core Infrastructure Strategy. Other numerical data such as weights, stock returns and contributions are based on a representative portfolio of the composite. Please refer to the disclaimer below for further details.

GIPS® DISCLOSURE

Magellan claims compliance with the Global Investment Performance Standards (GIPS®).

For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by Magellan.

The Magellan Global Core Infrastructure composite is a global strategy investing in strictly defined or "pure" infrastructure companies (typically 80-120). The composite is hedged to Australian dollars with Forward contracts.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.

A list of composites and descriptions, as well as policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request by emailing data@magellangroup.com.au

The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selections of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.

Industry and Geographical Exposures are calculated on a look through basis based on underlying revenue exposure of individual companies held within the representative portfolio.