

Dear Investor,

I am pleased to write to you as an investor in the Magellan Select Infrastructure Strategy (the Strategy) for the six months ended 31 December 2013.

Over the six months, the Strategy* returned +9.2% gross of fees, which was +1.5% better than the market benchmark (the UBS Developed Infrastructure & Utilities Net Total Return Index (hedged to AUD)). For the year ended 31 December 2013, the Strategy returned +19.1%, 0.7% less than the market benchmark.

As we commented in the Annual Investor Report at 30 June 2013, infrastructure when properly defined, is a low-risk asset class that should provide investors with long-term returns in the order of CPI + 4-5% per annum. Infrastructure assets were oversold during the global financial crisis (GFC) and returns for the last three years, ending 31 December 2013 (Strategy +16.1% p.a., index +10.6% p.a.) reflect the market re-focusing on the attractive, conservative, fundamentals of the asset class.

PORTFOLIO STRATEGY

The Strategy seeks to provide investors with attractive risk-adjusted returns from the infrastructure asset class. It does this by investing in a portfolio of listed infrastructure companies that meet Magellan's strict definition of infrastructure at discounts to their assessed intrinsic values.

Generally, infrastructure assets are natural monopolies that provide an essential service to the community. Over time the stable, reliable earnings of infrastructure assets are expected to lead to a combination of income and capital growth for investors.

As we have outlined in previous investor reports, the universe of infrastructure assets that we consider for the Strategy is dominated by 2 main sectors:

- **Utilities:** This includes both regulated energy utilities and regulated water utilities. Utility regulation generally requires the utility to efficiently provide an essential service to the community and, in return, permits the utility to earn a fair rate of return on the capital it has invested in its operations. As the utility provides a basic necessity, e.g. energy or water, demanded volumes are expected to be steady under most scenarios and the consequent earnings of regulated utilities are expected to be stable.
- **Infrastructure:** This includes airports, ports, toll roads, energy infrastructure and communications infrastructure. Regulation of infrastructure companies is generally less intensive than for utilities and allows companies to accrue the benefits of volume growth. 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 from infrastructure assets are expected to grow in a predictable manner over the medium-term.

The infrastructure universe from which the portfolio is selected is designed to prevent the Strategy from investing in stocks whose earnings have material exposure to competition, commodity prices or unacceptable sovereign or regulatory risk. We seek to limit the exposure of the Strategy to these risks in order to build a portfolio of companies that will deliver a more predictable return than standard infrastructure indices through the economic cycle and protect capital. By defining the universe strictly, we seek only those businesses that exhibit predictable cashflows because, as many investors would appreciate, providing an essential service does not necessarily translate to durable cashflow generation. The investment approach is susceptible to underperforming investment market benchmarks in rising markets, but it is also expected to provide more stable, reliable investment returns when investment markets are declining.

The last 12 months have witnessed the share-price recoveries of two sectors that are often included in broader market definitions of infrastructure investment universe, but are outside the universe of stocks that we considers 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.

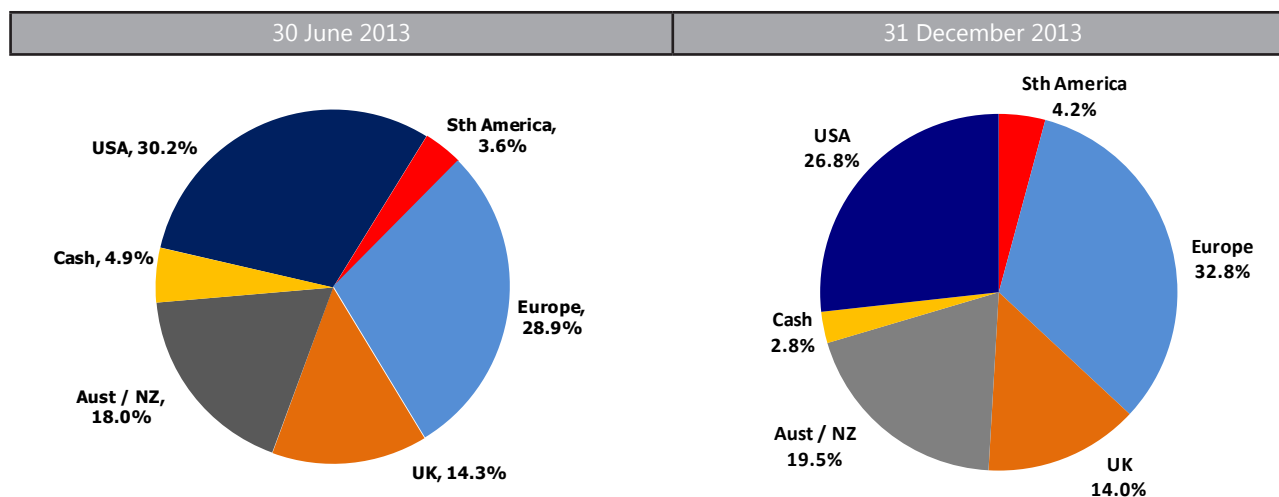
PORTFOLIO SUMMARY*

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

The composition of the Strategy by sector at 30 June 2013 and 31 December 2013 was as follows.

| | Portfolio Weight (%) | |
|------------------|----------------------|------------------|
| | 30 June 2013 | 31 December 2013 |
| Toll Roads | 13.7% | 17.8% |
| Airports | 14.9% | 21.1% |
| Ports | 2.5% | 2.9% |
| Communications | 8.4% | 9.2% |
| Energy Utilities | 35.8% | 35.0% |
| Water Utilities | 19.7% | 11.2% |
| Cash | 4.9% | 2.8% |

The composition of the Strategy by geography at 30 June 2013 and 31 December 2013 was as follows:



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.

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.

COMPANY IN FOCUS

Transurban

Transurban is an Australian company 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 key holding in the Strategy since it launched in 2007. In our view, it owns a highly attractive portfolio of toll roads 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, 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 weighted average remaining concession length is 26 years (excluding the 495 asset which we currently value at zero).

Transurban's toll road portfolio includes the following roads:

| 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* |
| 95 Express Lanes, Virginia, USA | 67.5% | 2088 | Dynamic based on usage – no cap* |

Source: Transurban, Magellan Asset Management Limited.

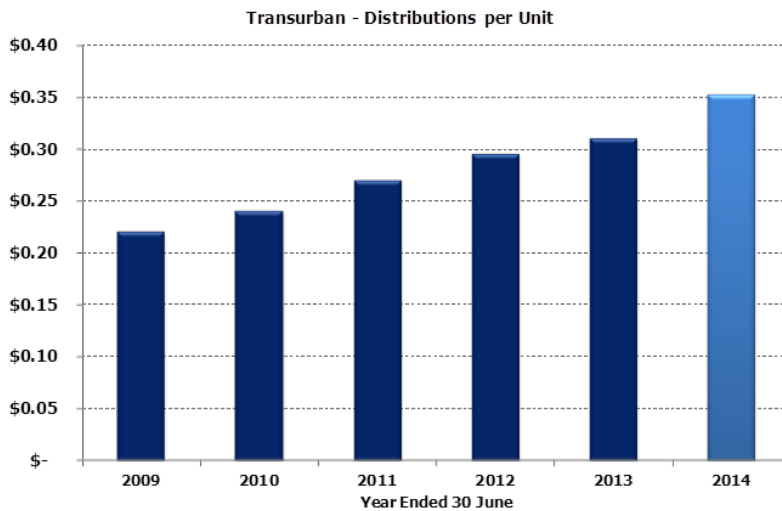
*Both the 495 Express Lanes and the 95 Express Lanes are High Occupancy Transit lane toll roads where the toll changes according to the level of usage, i.e. the higher the demand the higher the toll. Tolls are not paid by vehicles with three or more occupants. The tolls increase to ensure that traffic 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 CBD 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.

Transurban also has a dominant position in the toll road market in Sydney, Australia, owning positions in every toll road within the Sydney basin, home to almost 5 million people.

Transurban's position in the Sydney and Melbourne toll road markets provides numerous value enhancing opportunities. Transurban's current negotiation with the Government of New South Wales, Australia, to build a connection between the M2 and the F3 Freeway (which links Sydney to Newcastle) is a powerful example of such opportunities. While yet to reach financial close, we expect the deal to be favourable for Transurban shareholders.

The key outcome of these attractive investment characteristics is the confidence investors can have in the free cash flow the assets will produce. The following graph shows the growth in Transurban's distributions from 2009 to 2014 (Transurban has provided guidance for distributions in 2014). Over that period, distributions will have grown by 9.9% pa. We believe that the combination of continued traffic growth, inflation indexation of tolls and ongoing cost containment will result in continued robust growth in distributions from Transurban.



Source: Transurban, Magellan Asset Management Limited.

Conclusion

We believe that infrastructure 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,



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 Magellan Select Infrastructure
 January 2014

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The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. The past performance of the Strategy is not necessarily indicative of future results and no person guarantees the performance of the Strategy or the amount or timing of any return from it. There can be no assurance that the Strategy will achieve any targeted returns, that asset allocations will be met or that the Strategy will be able to implement its investment strategy or achieve its investment objective. The management fees, incentive fees and allocation and other expenses of the Strategy will reduce trading profits, if any, or increase losses. The Strategy will have limited liquidity, no secondary market for interests in the Strategy is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Strategy. In making an investment decision, you must rely on your own examination of any Offer Document relating to the Strategy.

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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 Select 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 Select 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