Magellan Core Infrastructure

Strategy Update: 30 September 2013

Key Facts

Portfolio Manager
Dennis Eagar / Gerald Stack

Inception date
19 December 2009

Total Infrastructure Assets[1]
AUD $3,158.6 million

Composite Size[2]
AUD $402.6 million

AUD Hedged Gross Performance[2]

	Composite %	Index %[3]	Excess Return %
1 Month	2.1	3.7	-1.6
3 Months	2.2	3.8	-1.6
6 Months	1.9	4.2	-2.3
1 Year	14.5	16.1	-1.6
2 Years (p.a.)	17.3	14.6	2.7
3 Years (p.a.)	16.1	10.7	5.4
Since Inception (p.a.)	16.2	9.1	7.1
Since Inception	76.7	39.0	37.7

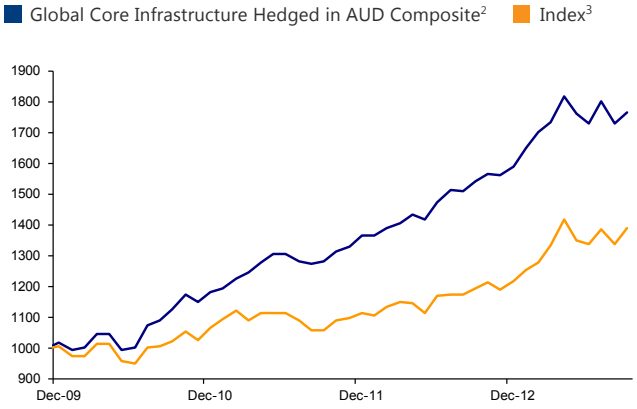
AUD Hedged Gross Performance - Calendar Year[2]

	Composite %	Index %[3]	Excess Return %
2009 (part year)	1.9	0.9	1.0
2010	15.9	5.7	10.2
2011	15.6	4.7	10.9
2012	16.3	9.1	7.2
2013	11.2	14.2	-3.0

AUD Hedged Risk Measures Since Inception[2]

Upside Capture	1.1
Downside Capture	0.4
Beta	0.8
Information Ratio (p.a.)	3.6
Tracking Error (p.a.)	4.3%
Worst Drawdown - Composite	-5.2%
Worst Drawdown - Index[3]	-6.4%

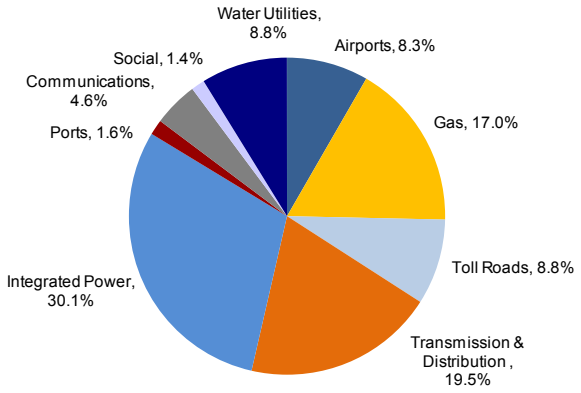
Performance Chart Growth of AUD $1,000



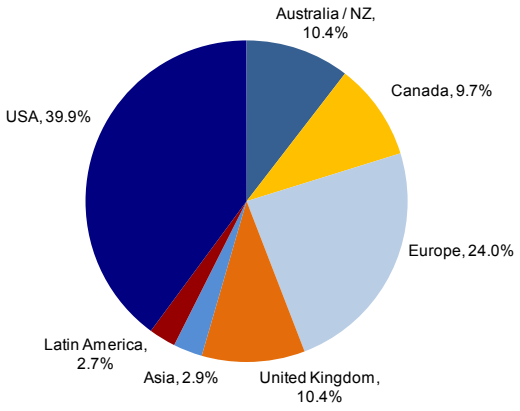
Top 10 Holdings[4]

	Sector	% of Strategy
Enbridge Inc	Gas	2.9%
Abertis	Toll Road	2.9%
TransCanada Corp	Gas	2.9%
SES GDR	Communications	2.9%
Transurban Group	Toll Road	2.9%
National Grid PLC	Transmission & Distribution	2.9%
Power Assets Holdings	Integrated Power	2.8%
Snam Rete Gas SpA	Gas	2.8%
United Utilities Group Plc	Water Utility	2.4%
Sydney Airports	Airport	2.3%

Industry Exposure[4]



Geographical Exposure[4]



[1] Comprised of the total Firm Infrastructure assets, comprising the Infrastructure strategy and Core Infrastructure strategy.
[2] Returns and risk measures are for the Global Core Infrastructure Hedged in AUD Composite. *Refer overleaf for further information.
[3] Index: UBS Developed Infrastructure & Utilities Net Total Return Index (Hedged to AUD). Source: UBS
[4] Representative Portfolio. ^Refer overleaf for further information.

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Performance and Activity

During the September 2013 quarter, the Magellan Core Infrastructure Strategy (the Strategy) returned 2.2% before fees, compared with the benchmark UBS Infrastructure & Utilities Index's return of 3.8%. The returns for the 12 months to the end of September were 14.5% for the Strategy and 16.1% for the benchmark.

In equilibrium, we expect the Strategy to deliver returns of OECD inflation plus 6% so the performance in the previous quarter was broadly in line with that expectation while the annual return is a reflection of the fact that many of the Sytategy's holdings were over-sold in previous periods.

During the quarter there were mixed results from the sector exposures held in the Strategy. The toll road sector generated a total shareholder return of more than 9% for the quarter and Airports were up almost 9%. Offsetting these gains were modestly negative returns from the Energy Transmission & Distribution Sector (down 1.3%) and the Integrated Power sector (down 0.2%). The very strong performance of US & Canadian regulated utilities over the last few years had, in our view, run a little too hard so the approximate 5% fall in these stocks over the last 4-5 months was no surprise. We now view those stocks as generally fairly priced.

In contrast to the North American markets, European and Australian stocks held in the Strategy performed well during the quarter with average total shareholder returns in excess of 5%.

In terms of the stocks not held in the Strategy but included in commonly used infrastructure sector benchmarks, the September 2013 quarter saw a strong recovery in the share prices of European stocks that had been very poor performers in recent years. This was particularly the case for the very large energy utilities that do not enjoy sufficient regulatory protection to qualify for inclusion in the Strategy. For instance, Electricite de France generated a total shareholder return of 31% for the quarter, GDF Suez 23%, Enel 18% and VERBUND 15%. Similarly, stocks that had a meaningful exposure to the economic cycle performed well during the quarter including, for instance, Veolia Environment (total shareholder return of 44%) and Suez Environment (21%) both of which have substantial unregulated waste and energy businesses.

Portfolio

During the quarter, four stocks were added to the Strategy and one, CH Energy, was removed as a result of it being delisted following a takeover. The four stocks added to the Strategy were three US utilities, Ameren Inc, Laclede Group and Sempra Energy and Mexico toll road company, OHL Mexico. Magellan has closely monitored these stocks over several years and is now satisfied that they each have the requisite sustainable and predictable inflation linked returns required to meet the demands of the Strategy.

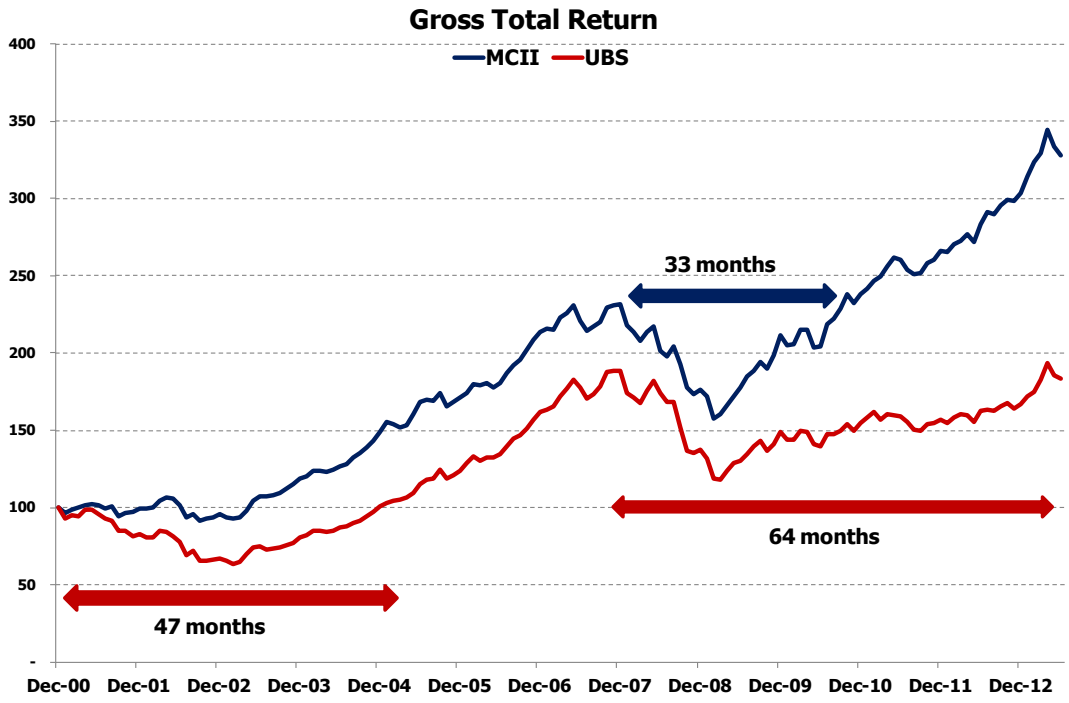
As a result of the rules based method of determining the weights of each stock in the Strategy (which limits exposures to individual stocks as well as individual sectors and geographic regions), the addition of these stocks did not materially change the total exposures of the Strategy. Utilities continue to make up approximately three-quarters of the Strategy with the US (40%) and Europe ex UK (24%) being the primary market exposures.

The Importance of Definition

The success of the Strategy relies on a significantly more strict definition of what constitutes the "Infrastructure" asset class than is more generally applied by index providers and, indeed, other global listed infrastructure investment managers. This is well illustrated in the following graph which looks at the performance of the Strategy in comparison with the most commonly used benchmark index, the UBS Developed Markets Infrastructure & Utilities Index.

Key observations to note from the graph are:

- Since the start of the previous decade there have been two major equity market falls, 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 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 Strategy stocks were hit (being a credit market crisis, stocks with above average levels of leverage were clear victims of panic selling) along with the UBS stocks with the latter falling 47% from the peak while the Magellan Core Infrastructure Index (MCII) fell 42%. But the MCII recovered that lost ground within 3 years (and has gone up a further 40% subsequently) while the UBS Developed Markets Infrastructure & Utilities Index has only just now recovered its lost ground, more than 5 years after its previous peak.



Source: MCII: Magellan Core Infrastructure Index (Local), UBS: UBS Developed Infrastructure and Utilities Index (hedged to AUD)

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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.

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