MFG Select Infrastructure

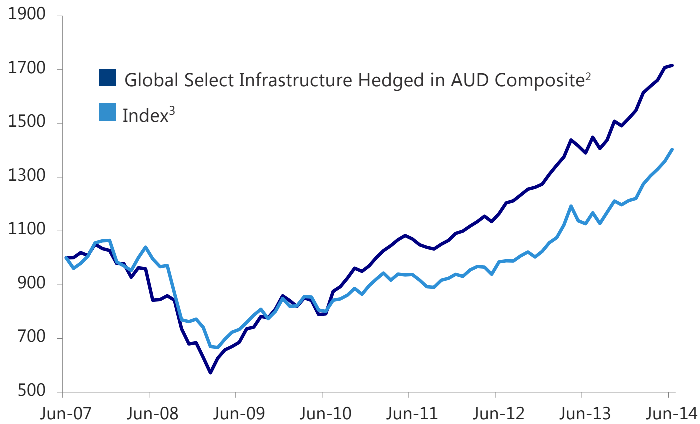
Strategy Update: 30 June 2014

Portfolio Manager	**Total Infrastructure Assets**[1]
Dennis Eagar/Gerald Stack	USD $3,841.8 million / GBP £2,246.9 million
Inception date	**Composite Size**[2]
1 July 2007	USD $615.0 million / GBP £359.7 million

AUD Hedged Gross Performance[2]

	Composite %	Index %[3]	Excess Return %
1 Month	0.4	3.3	-2.9
3 Months	4.7	7.6	-2.9
6 Months	13.0	15.7	-2.7
1 Year	23.4	24.6	-1.2
2 Years (% p.a.)	21.4	19.4	2.0
3 Years (% p.a.)	17.0	14.4	2.6
4 Years (% p.a.)	21.3	15.1	6.2
5 Years (% p.a.)	20.1	13.8	6.3
Since Inception (% p.a.)	8.0	5.0	3.0
Since Inception	71.6	40.3	31.3

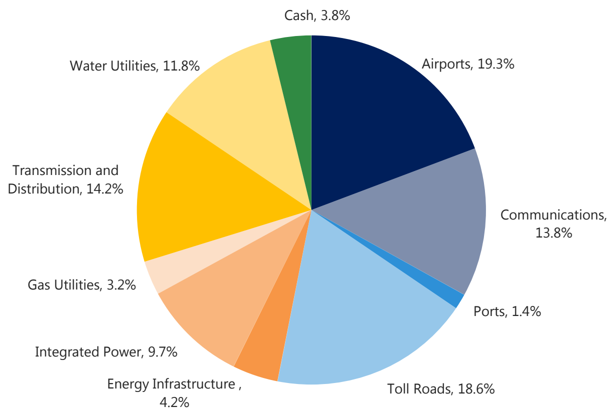
Performance Chart Growth of AUD $1,000



AUD Hedged Gross Performance - Calendar Year[2]

	Composite %	Index %[3]	Excess Return %
2007 (part year)	2.7	6.5	-3.8
2008	-33.4	-27.5	-5.9
2009	25.5	10.0	15.5
2010	13.0	5.7	7.3
2011	12.4	4.7	7.7
2012	16.8	9.1	7.7
2013	19.1	18.5	0.6

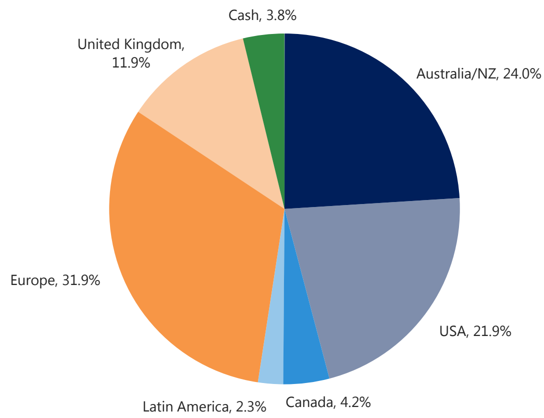
Industry Exposure[4]



AUD Hedged Risk Measures Since Inception[2]

Upside Capture	0.9
Downside Capture	0.7
Beta	0.8
Information Ratio (% p.a.)	0.3

Geographical Exposure[4]



Top 10 Holdings[4]

	Sector	% Weight
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

[1] Comprised of the total Firm Infrastructure assets, comprising the Select Infrastructure strategy and Core Infrastructure strategy.
[2] Returns and risk measures are for the Select 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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Fund Commentary

During the June 2014 quarter, the Magellan Select Infrastructure strategy returned +4.7% compared to the benchmark UBS index return of +7.6%. The return for the 12 months ending 30 June 2014 was 23.4% for the Select Infrastructure strategy 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 the Select Infrastructure strategy underperformed the index by 2.9%.

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

June also experienced strong results from US utilities with the stocks in the UBS index giving a TSR of 5.0%. The Select Infrastructure strategy has a relatively small exposure to stocks domiciled in the USA compared to the benchmark UBS index as we view the USA utilities market as expensive relative to other investment opportunities in the listed infrastructure and utilities investment universe.

The June quarter saw solid returns from all sectors except ports. The best performing stocks in the Select Infrastructure strategy during the quarter 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 the Select Infrastructure strategy returns for the quarter were global oil & chemical tank storage company Vopak (-9.7%), German airport company Fraport (-2.7%) and Zurich Airport (-2.4%).

Transurban

In our December 2013 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 moment's discomfort.

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Performance is compared to the UBS Developed Infrastructure & Utilities Index Net Total Return (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.

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^ 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 selection 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 portfolio

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