Magellan Infrastructure Fund

APIR: MGE0002AU | ARSN: 126 367 226

MAGELLAN ASSET MANAGEMENT

AS AT 31 DECEMBER 2023

PORTFOLIO MANAGER | **GERALD STACK**

INVESTMENT PHILOSOPHY	OBJECTIVES	PORTFOLIO CONSTRUCTION	INVESMENT RISKS
To prudently invest in outstanding infrastructure and utilities companies at attractive prices that exhibit highly predictable cashflows.	To achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.	Relatively concentrated portfolio of typically 20 to 40 investments. Typical cash and cash equivalents exposure between 0 - 20%.	All investments carry risk. While it is not possible to identify every risk relevant to an investment in the fund, we have provided details of risks in the Product Disclosure Statement. You can view the PDS for the fund on Magellan's website www.magellangroup.com.au.

MAGELLAN INFRASTRUCTURE FUND: KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	BUY/SELL SPREAD	MANAGEMENT AND PERFORMANCE FEES[1]	INCEPTION DATE
-	AUD $1,880.2 million	0.15% /0.15%	1.06%, and performance fee of 10% of dual hurdle excess return^	1 July 2007

^ 10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A$ Hedged Net Total Return) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark.

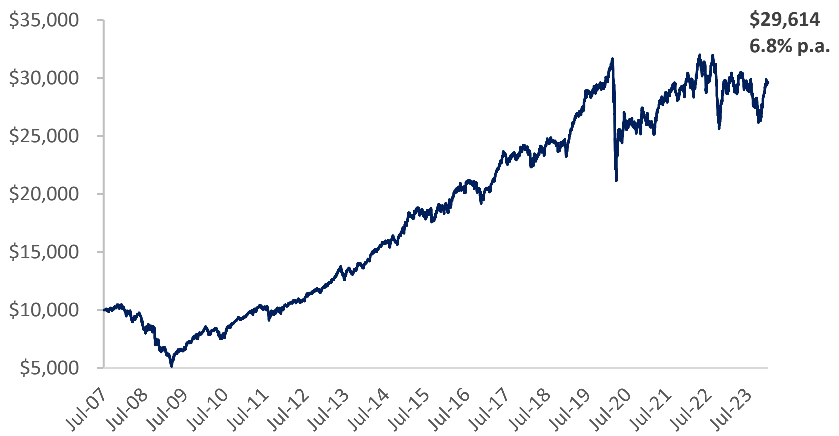
PERFORMANCE[2]

	1 MONTH (%)	3 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	7 YEARS (% p.a.)	10 YEARS (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY[+]
Magellan Infrastructure Fund	2.3	9.7	3.5	3.9	4.4	5.5	7.7	6.8	82%
Global Infrastructure Benchmark (A$ Hedged)*	3.0	7.8	3.4	6.0	5.6	4.9	6.4	5.1	-
Excess	-0.7	1.9	0.1	-2.1	-1.2	0.6	1.3	1.7	-

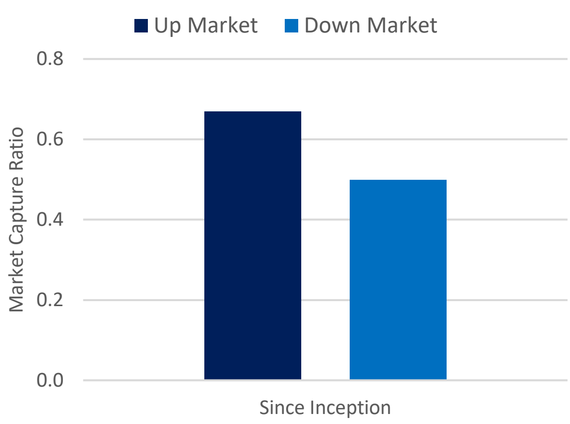
CALENDAR YEAR RETURNS	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)
Magellan Infrastructure Fund	3.5	-5.9	15.2	-11.7	25.5	-0.4	17.4	6.7	10.6	22.4	17.8	15.1	11.2	11.8	24.2	-34.1
Global Infrastructure Benchmark (A$ Hedged)*	3.4	1.3	13.7	-11.9	25.3	-6.7	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	10.0	-27.5
Excess	0.1	-7.2	1.5	0.2	0.2	6.3	3.0	-7.4	16.0	-0.5	-0.7	6.0	6.5	6.1	14.2	-6.6

Past performance is not a reliable indicator of future performance.

PERFORMANCE CHART GROWTH OF AUD $10,000[2]



MARKET CAPTURE[3]



Past performance is not a reliable indicator of future performance.

[1] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

[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). Returns denoted in AUD.

[3] Market Capture is calculated after fees measured against the monthly return of the MSCI World Net Total Return Index (A$ Hedged). Up market capture shows how the fund performed relative to the index while the market is rising. Down market capture shows how the fund performed relative to the index while the market is falling. All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in www.magellangroup.com.au/funds/benchmark-information/

[+] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.

[*] S&P Global Infrastructure Index A$ Hedged Net Total Return spliced with UBS Developed Infrastructure and Utilities Index A$ Hedged Net Total Return prior to 1 January 2015. Note: as the UBS Developed Infrastructure and Utilities Index A$ Hedged Net Total Return ceased to be published from 31 May 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Index A$ Hedged Net Total Return.

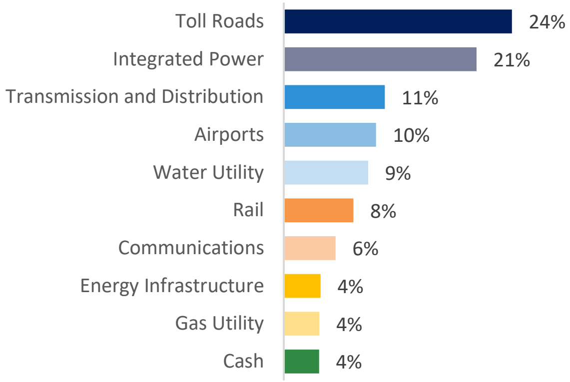
TOP 10 HOLDINGS

STOCK	SECTOR[4]	%
Ferrovial SE	Toll Roads	6.6
Aena SME SA	Airports	6.5
Vinci SA	Toll Roads	6.4
Transurban Group	Toll Roads	6.4
National Grid Plc	Transmission and Distribution	5.5
Severn Trent	Water Utility	4.7
United Utilities Group Plc	Water Utility	4.4
Sempra Energy	Integrated Power	4.3
Norfolk Southern Corporation	Rail	4.3
American Tower Corporation	Communications	3.6
	TOTAL:	52.7

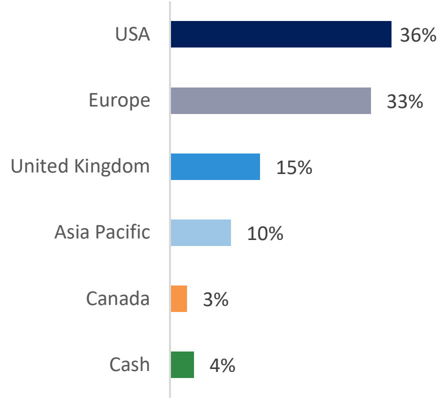
TOP CONTRIBUTORS/DETRACTORS 1 YEAR[5]

TOP 3 CONTRIBUTORS	CONTRIBUTION TO RETURN (%)
Aena SME SA	2.1
Vinci SA	2.0
Ferrovial	2.0
TOP 3 DETRACTORS	**CONTRIBUTION TO RETURN (%)**
Eversource Energy	-0.8
Dominion Energy Inc	-0.6
Evergy Inc	-0.5

SECTOR EXPOSURE[4]



GEOGRAPHICAL EXPOSURE[4]



[4] Sectors are internally defined. Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.
[5] Shows how much the stock has contributed to the fund's gross return for the period in AUD. Excludes non-disclosed positions established in the latest quarter.

Fund Commentary

The portfolio recorded a positive return in the December quarter.

The key contributors for the quarter were American Tower, Ferrovial and Aena. US tower company American Tower lifted as US bond rates eased significantly over the quarter on the back of better-than-expected inflation numbers. Spanish airport operator Aena lifted as it reported Q3 earnings slightly ahead of market expectations and it confirmed robust winter season capacity growth, well ahead of 2019 levels. Toll road and airport operator Ferrovial rose as reported strong Q3 traffic across its airports and toll roads, and it announced the sale of its stake in Heathrow Airport for a price above what many in the market believed it could achieve.

The only detractors over the quarter were Vopak and American Water. Dutch storage company Vopak was down slightly as the company didn't provide any meaningful new information at their capital markets day during November, which disappointed the market. American Water fell early in the quarter on higher US rates, and the position was exited in October on relative value.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Outlook

Notwithstanding our expectations for greater volatility in the short to medium term driven by inflation and interest rates, we are confident that the underlying businesses we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices in the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, we believe the resilient nature of earnings and the structural linkage of those earnings to inflation means that investment returns typically generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the historically reliable financial performance of infrastructure investments makes them attractive, and an investment in listed infrastructure has the potential to reward patient investors with a long-term time frame.

Stock Story: Vinci

(Ben McVicar – Fund Manager)

Vinci is built around the pillars of its concessions and contracting operations. From our perspective, the most attractive part of its business is the large and diversified concessions holdings. These provide the lion's share of earnings and deliver a stable and reliable income stream for investors.

The concessions business is diverse, spanning a wide array of assets. These include everything from toll roads and airports to renewable power and even the Stade de France stadium. This business is without doubt the most important earnings contributor due to the strong profit margins on which it operates. However, the contracting business is also a large operation. Capabilities for this contracting business are significant with the business operating in over 120 countries, with an employee base of more than 270,000 and project types including road construction, buildings, and electrical networks and data centres.

Within the concession business, the most important economic engine comprises the toll roads concessions in France, known as Vinci Autoroutes. Autoroutes operates a collection of road networks covering 4,443 km that represent around half the toll road market in the country and one third of the total motorway network. These motorways are mature concessions and typically grow modestly but predictably as traffic increases and tolls are lifted by 70% of the recorded inflation rate each year. This leads to modest but steady inflation-linked growth in cash flow from these assets. Due to the mature nature of these concessions, they generate significant cash flow, with EBITDA (a cash flow proxy for motorways) of €4.4bn in 2022.

Airports have been an area of growth for the company. In 2019 (the last full year before COVID-19 affected air traffic), Vinci owned or operated airports that moved 255 million passengers, a figure it looks likely to have surpassed in 2023. In 2013, Vinci took relatively modest airport operations and grew them through the acquisition of the airport operator in Portugal, ANA. This asset added key airports such as Lisbon and Porto to its portfolio. Since then, Vinci has taken stakes in airports in the UK, Mexico and Japan. These assets provide a link to the ongoing structural growth in global aviation.

Vinci has continued to look for areas of growth in which it can profitably deploy capital generated from its existing business. The company has stated its aspirations for significant growth into renewable power. This has arisen through the acquisition of the contractor Cobra IS and its renewable energy development platform. The company has stated a target of over 12 GW of capacity by 2030 as it continues to deploy increasing capital into this opportunity.

Finally, while a minority of Vinci's earnings, contracting is a large part of the overall business in terms of volume of work. The company is currently sitting on an order book of €63.3bn or around 13.6 months of activity for the group. We expect this operation will continue to generate a meaningful and growing profit contribution, particularly through its energy and electric engineering teams that are benefiting from ongoing expenditure in energy transition and digital transformation. Importantly from a risk point of view, the contracts are highly diversified, with any single 'difficult to complete' construction project likely to be a headwind to earnings rather than a significant financial problem for the company.

We consider that the outlook for the business should be steady and predictable with a well-diversified portfolio of infrastructure concession businesses. Meanwhile, management will be focused on continued capital deployment of the significant free cash flow the company generates for its shareholders.