Fund Update: 30 June 2022

# Magellan Infrastructure Fund

ARSN: 126 367 226

## Fund Facts

| | |
|---|---|
| Portfolio Manager | Gerald Stack |
| Structure | Global Listed Infrastructure Fund, A$ Hedged |
| Inception Date | 1 July 2007 |
| Management Fee[1] | 1.05% per annum |
| Buy/Sell Spread[1] | 0.15%/0.15% |
| Fund Size | AUD $2,734.9 million |
| Distribution Frequency | Semi-annually |
| Performance Fee[1] | 10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Net Total Return Index (A$ Hedged)) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Additionally, the Performance Fees are subject to a high water mark. |

[1]All fees are inclusive of the net effect of GST.

## Fund Features

- Benchmark-unaware exposure to global listed infrastructure
- Conservative definition of core infrastructure
- Relatively concentrated portfolio of typically 20 to 40 investments
- Seeks to substantially hedge the capital component of the foreign currency exposure back to Australian dollars
- Typical cash exposure between 0% - 20%
- $10,000 minimum investment amount.

## 3 Year Rolling Returns (measured monthly)^*

| Against Global Infrastructure Benchmark | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|
| No of observations | 12 | 36 | 60 | 145 |
| Average excess return (% p.a.) | 0.0 | 2.4 | 2.6 | 3.7 |
| Outperformance consistency | 50% | 83% | 87% | 92% |

## Fund Performance^

| | Fund (%) | Index (%)+ | Excess (%) |
|---|---|---|---|
| 1 Month | -4.6 | -6.6 | 2.0 |
| 3 Months | -4.8 | -4.9 | 0.1 |
| 1 Year | 6.6 | 9.4 | -2.8 |
| 3 Years (p.a.) | 1.5 | 2.4 | -0.9 |
| 5 Years (p.a.) | 5.5 | 4.2 | 1.3 |
| 10 Years (p.a.) | 10.4 | 8.4 | 2.0 |
| Since Inception (p.a.) | 7.5 | 5.4 | 2.1 |

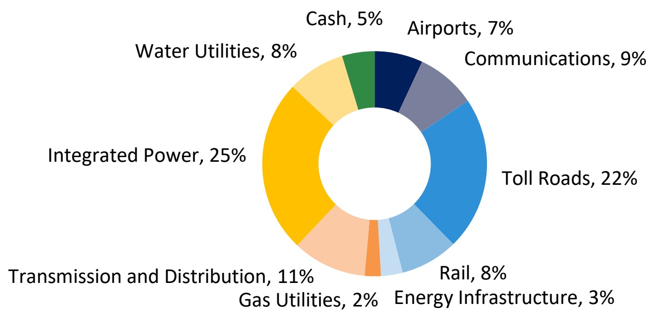
## Fund Risk Measures**

| | 5 Years | Since Inception* |
|---|---|---|
| Upside Capture | 0.6 | 0.6 |
| Downside Capture | 0.5 | 0.4 |

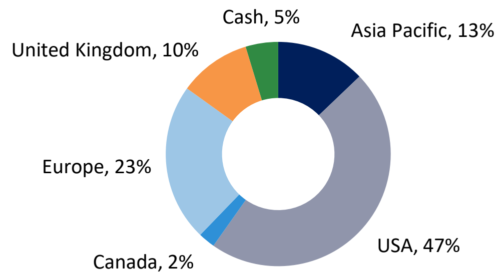
## Top 10 Holdings

| | Sector# | % |
|---|---|---|
| Transurban Group | Toll Roads | 8.1 |
| Vinci SA | Toll Roads | 6.1 |
| Dominion Energy Inc | Integrated Power | 5.1 |
| United Utilities Group Plc | Water Utilities | 4.6 |
| Sempra Energy | Integrated Power | 4.5 |
| American Tower Corporation | Communications | 4.5 |
| Crown Castle International | Communications | 4.1 |
| Atlantia SpA | Toll Roads | 4.1 |
| Atlas Arteria | Toll Roads | 3.8 |
| Eversource Energy | Transmission and Distribution | 3.8 |
| | TOTAL: | 48.7 |

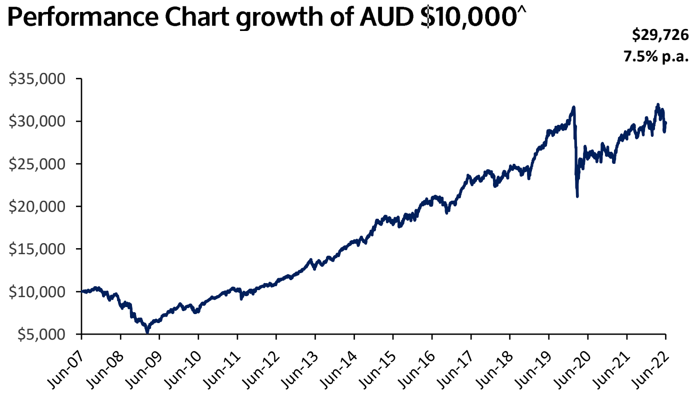
## Sector Exposure#




## Geographical Exposure#




## Performance Chart growth of AUD $10,000^




^ 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). Fund Inception 1 July 2007.
* 3-year returns are calculated and rolled monthly in AUD, with the outperformance consistency indicating the percentage of positive excess returns since inception.
+ S&P Global Infrastructure Net Total Return Index (A$ Hedged) spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (A$ Hedged) prior to 1 January 2015. Note: as the UBS Developed Infrastructure and Utilities Net Total Return Index ($A hedged) ceased to be published from 31 May 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Net Total Return Index (A$ Hedged).
** Upside/downside capture shows if a fund has outperformed the global market during periods of market strength and weakness, and if so, by how much. The MSCI World Net Total Return Index (A$ Hedged) has been used as the representative of the global market to calculate this risk measure. All data 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/
# Sectors are internally defined. Geographical exposures are by domicile of listing. Cash exposure includes profit/loss on currency hedging. Exposures may not sum to 100% due to rounding.

## Fund Commentary

The portfolio recorded a negative return in the June quarter. The stocks that detracted the most were the investments in Aena of Spain and Norfolk Southern and CSX, two railroad companies from the US. Aena slid after the world's largest airport operator, despite a strong traffic recovery, reported disappointing earnings for the first quarter on the back of higher energy prices. Norfolk Southern and CSX slid on rising talk that tighter monetary policy could send the US economy into a recession, which would hurt railroad volumes, even though railroaders overall reported encouraging results for the first quarter. Norfolk Southern, for instance, posted operating revenue of US$2.9 billion, an increase of 12%.

Stocks that contributed the most included the investments in Atlantia of Italy and Atlas Arteria and Transurban of Australia. Atlantia surged after the Benetton family, the largest shareholder in the motorway and airport infrastructure company with a 33% stake, announced a takeover of 23 euros a share to take the company private. Atlas Arteria, which operates four toll roads across France, Germany and the US, rose after Australian-based IFM Investors took a stake in the company and commenced discussions over a potential take-private transaction. Transurban rose as traffic numbers recovered to pre-pandemic levels and the tollway operator likewise benefited from the inflation protection tollways offer investors.

*Stock contributors/detractors are based in local currency terms.*

## Stock Story: Atlantia

Atlantia

During 2021, Italian infrastructure group Atlantia agreed to sell its 88% stake in tollway-operator Autostrade per l'Italia for an estimated 8 billion euros. This asset was previously considered the key asset within Atlantia's business.

This sale followed a period in which the company had found itself facing off against the Italian government due to a tragic event. In 2018, the Morandi Bridge in Genoa collapsed, killing 43 people. The bridge was managed by Autostrade under its concession agreement. Conflict with the government escalated quickly, and Rome threatened to revoke Autostrade's concession. While we considered that Atlantia at its core was a stable, quality infrastructure operation, the risks during this period created so much uncertainty we no longer considered the company a conservative and reliable infrastructure investment.

The sale of Autostrade, however, meant the quality of Atlantia's remaining assets became the focus. Furthermore, the company would now be receiving significant proceeds from the sale allowing management to undertake targeted investment opportunities and a buyback to return capital to shareholders.

Post the sale of Autostrade, the key assets for Atlantia include toll roads, airports and adjacent mobility businesses. The Abertis Group, an important operator in global toll road markets, is jointly owned by Atlantia and Spanish construction company ACS. This group controls a diversified portfolio of motorway concessions that make Atlantia responsible for the development, maintenance and operation of about 7,800 kilometres of tollways across four continents, operating in countries such as Brazil, Chile, France, India, Italy, Mexico, Spain and the US. Atlantia also holds a portfolio of toll road assets separate from its operations in Abertis, providing it with additional exposure to the long-term growth characteristics of these assets.

Another important asset for the Atlantia group is Aeroporti di Roma, which operates Rome's main airports. This is operated under a long-term agreement extending to 2046 and will provide an attractive long-term exposure to the global aviation market, along with the post-covid recovery in traffic.

Atlantia has also developed adjacent mobility businesses such as Telepass, which operates electronic-tolling and other transport-payment systems such as car parks and restricted traffic zones in Europe. Atlantia in January this year bought Siemens's road traffic unit for 950 million euros. Atlantia took interest because Yunex Traffic, which makes traffic lights and associated software systems, fitted with Atlantia's strategy to expand its technology product offerings. While Magellan does not consider these business to be pure infrastructure, assets such as Telepass have proven to be an attractive opportunity for the business over time.

We weren't the only investors who noted the strength of Atlantia's assets post the Autostrade sale. Private-equity investors and strategic buyers soon circled. The largest shareholder on the Atlantia register, the Benetton-backed Edizione, in April this year was drawn to make an offer. Edizione teamed with US-based buyout specialist Blackstone Group to make a 19-billion-euro bid for the remaining shares of the company.

While the buy-out offer for Atlantia has not reached a conclusion, the situation demonstrates the widespread appeal of high-quality infrastructure assets that provide long-term, stable and growing cash flow streams to investors.

*Sources: Dunn & Bradstreet, Bloomberg and company filings.*