Fund Update: 30 September 2021

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 $2,770.9 million
Distribution Frequency	Semi-annually
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Net Total Return Index (A$ 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	136
Average excess return (% p.a.)	1.9	2.8	3.2	3.9
Outperformance consistency	100%	94%	97%	96%

Fund Performance^

	Fund (%)	Index (%)⁺	Excess (%)
1 Month	-4.0	-0.6	-3.4
3 Months	0.7	2.7	-2.0
1 Year	9.5	21.1	-11.6
3 Years (p.a.)	4.9	4.8	0.1
5 Years (p.a.)	6.0	4.8	1.2
10 Years (p.a.)	11.0	8.8	2.2
Since Inception (p.a.)	7.5	5.2	2.3

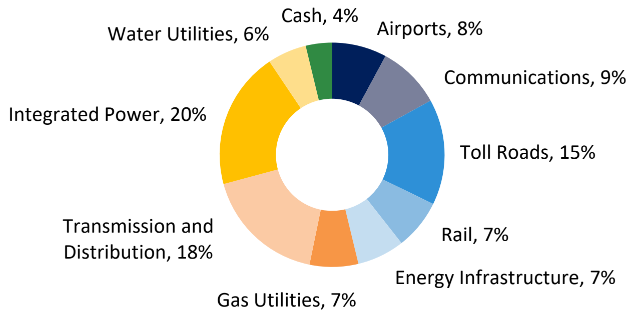
Fund Risk Measures**

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

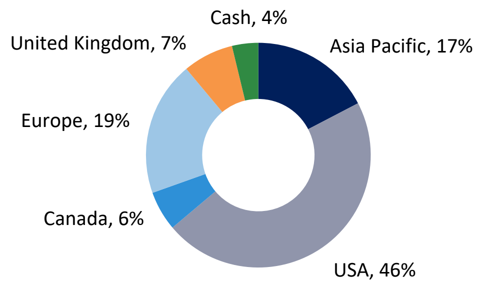
Top 10 Holdings

	Sector#	%
Transurban Group	Toll Roads	7.5
Enbridge Inc	Energy Infrastructure	5.7
Sempra Energy	Integrated Power	4.8
American Tower Corporation	Communications	4.8
Atmos Energy Corporation	Gas Utilities	4.5
Vinci SA	Toll Roads	4.5
Crown Castle International	Communications	4.3
Eversource Energy	Transmission and Distribution	4.3
Red Electrica Corporacion	Transmission and Distribution	4.3
Aena SME SA	Airports	4.0
	TOTAL:	48.7

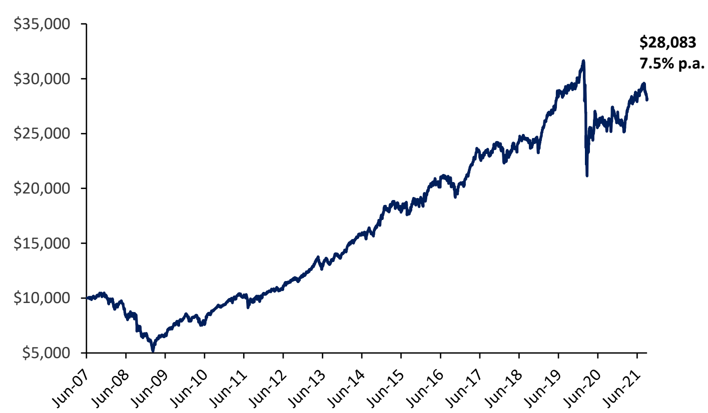
Sector Exposure#



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 after fees in AUD and rolled monthly, with 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.
# 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 positive return in the September quarter. Stocks that contributed the most included the investments in Sydney Airport, Spark Infrastructure and Red Eléctrica of Spain. Sydney Airport surged following a A$24 billion takeover offer from a consortium led by the infrastructure manager IFM. Red Eléctrica, which operates Spain's electricity grid, performed strongly as the market warmed to its locked-in regulatory outlook and resilience to rising energy prices in Europe. Spark rose after the electricity transmission company received a A$5.2 billion takeover offer from Ontario Teachers' Pension Plan Board and Kohlberg Kravis Roberts.

The stocks that detracted the most were the investments in Crown Castle International, Atmos Energy and Norfolk Southern of the US. Crown Castle, a US-based owner of telecom towers, fell due to increasing concerns around inflation. Atmos Energy, which distributes natural gas, fell over concerns that rising natural gas prices may hamper its capex plans. Norfolk Southern, which operates railroads in North America, slid as sequential weekly rail volume growth slowed and as President Joe Biden issued an executive order that seeks to promote competition in the sector.

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

Stock Story: Xcel Energy

George Floyd was choked to death under the knee of a US policeman in south Minneapolis in May last year. A few kilometres away from the murder site is the headquarters of Xcel Energy, an electricity and natural gas company that operates across eight mid-western US states.

Xcel Energy Chairman and CEO Ben Fowke, calling Floyd's death and the uproar that followed "an awakening", used his appointment around that time as chairman of the industry trade association, the Edison Electric Institute, to add racial inequality to the industry's agenda. Across the sector, 57 CEOs committed to address racial unfairness in their companies and communities. For its part, Xcel Energy added diversity, equity and inclusion metrics to management compensation.

The utility that earned US$11.5 billion in revenue from servicing 3.7 million electricity and 2.1 million gas customers who mainly reside in Colorado and Minnesota seems to like setting worthwhile goals. When it comes to its core operations, Xcel Energy is leading the transition towards clean energy.

Xcel Energy, which traces its origins to 1904, has declared it will provide 100% carbon-free electricity by 2050, making it the first large US utility to declare such an intention. While that might seem so far off as to be meaningless, by the end of 2020 about 47% of the energy Xcel Energy produced already came from carbon-free sources.

Such progress means Xcel Energy has reduced carbon emissions by 51% since 2005 and the company intends that percentage to reach 80% by 2030. To get there, Xcel Energy will retire its coal-fired plants, preserve its nuclear assets, maintain natural gas as a backup and build large renewable projects. As the company operates in a windy part of the US (the other six states are New Mexico, North Dakota, Michigan, South Dakota, Texas, and Wisconsin), the renewable focus is wind farms.

What's in these worthwhile pursuits for investors? The answer is that, while the goal to achieve racial equality is altruistic, the climate goals are driven by financial self-interest that aligns with society's desire to mitigate global warming.

To understand how this financial self-interest operates it's necessary to understand the regulatory environment that governs utilities such as Xcel Energy. The quid pro quo under the regulatory regime is that utilities are granted the monopoly right to provide their services to a defined territory in exchange for having the return on capital spending capped. The easiest way, therefore, for a utility to increase earnings is to spend more on capital works, so long as they ensure that prices stay affordable for customers. Basically, Xcel Energy is a promising investment because regulators approve capital spending that alleviates any damage from climate change.

Xcel Energy spending plans can be split into two categories, where its investments in renewable technologies is one. The company is pivoting to wind farms because the cost of electricity generated by these assets has declined by almost 70% on average over the past decade. Because the wind is free, the company is well placed to grow shareholder returns without increasing bills for customers as it spends more than US$3.6 billion building wind farms over the next five years.

The other category is unrelated to climate change but is vital for Xcel Energy to provide its essential services. The company needs to replace ageing transmission and distribution infrastructure, especially power lines, to ensure the electrical grid functions properly. Nearly 25% of the company's 32,000 kilometres of transmission lines have exceeded their useful lives and close to another 20% will need replacing over the next decade. Xcel Energy is likely to spend more than US$10 billion over the next 15 years on new lines.

The company's approved capital spending over the coming decade means that investors can be confident the utility will achieve its long-term earnings growth objective of 5% to 7%, as it has in recent years while keeping customer bills low. If all goes to plan, Xcel Energy will offer a prime example of the predictable and steady earnings growth that infrastructure and utilities stocks can offer as an investment option.

To be sure, Xcel Energy faces challenges. Solar energy and more powerful batteries could reduce the demand for its electricity. But there's little sign that many of the utility's electricity customers are disconnecting from the grid. Another risk is that regulators could always reduce its authorised returns or exclude some capital spending from their sanction. Luckily for Xcel Energy, its regulators seem onside with its drive to cleaner energy. The advanced age of Xcel Energy's network increases the risk of accidents, especially explosions from gas leaks. All the spending on modernising Xcel Energy's assets will diffuse this risk over time. Chances are Xcel Energy will stay a good investment while doing good.

Sources: Company website, 2020 annual report.

Important Information: Units in the fund referred to herein are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('**Magellan**'). This material is issued by Magellan and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should obtain and consider the relevant Product Disclosure Statement ('**PDS**') and Target Market Determination ('**TMD**') and consider obtaining professional investment advice tailored to your specific circumstances before making a decision about whether to acquire, or to continue to hold, the relevant financial product. A copy of the relevant PDS and TMD relating to the relevant Magellan financial product may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

Past performance is not necessarily indicative of future results and no person guarantees the future performance of the fund, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. This material may include data, research and other information from third party sources. Magellan makes no guarantee that such information is accurate, complete or timely and does not provide any warranties regarding results obtained from its use. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Further information regarding any benchmark referred to herein can be found at www.magellangroup.com.au. Any third-party trademarks contained herein are used for information purposes only and are the property of their respective owners. Magellan claims no ownership in, nor any affiliation with, such trademarks. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan.

MIF44469