Magellan Infrastructure Fund (Unhedged)

ARSN: 164 285 830

Fund Facts

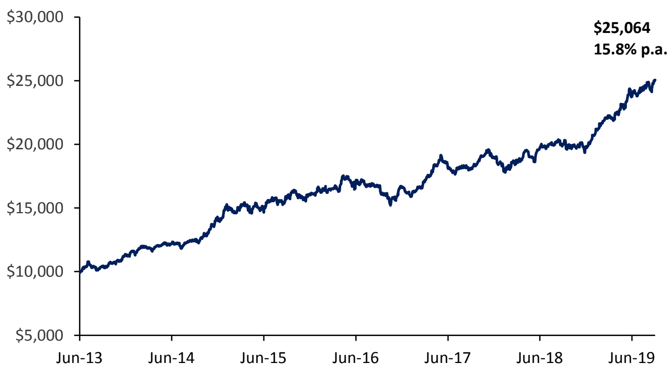
Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund (Unhedged)
Inception Date	1 July 2013
Management Fee[1]	1.05% per annum
Buy/Sell Spread[1]	0.15%/0.15%
Fund Size	AUD $1,097.7 million
Distribution Frequency	Six Monthly
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A$ Unhedged 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.

[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
- Maximum cash position of 20%
- $10,000 minimum investment amount.

Performance Chart growth of AUD $10,000*



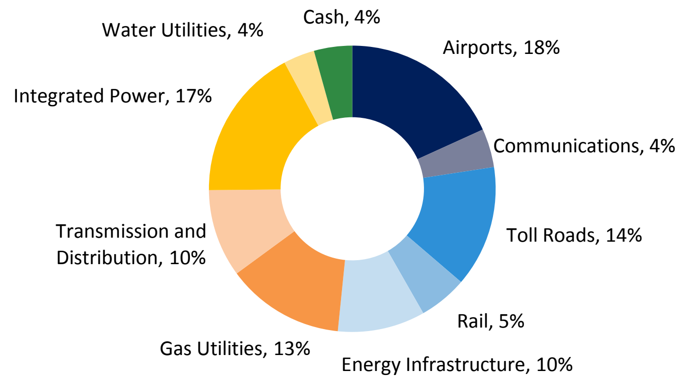
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	0.8	2.0	-1.2
3 Months	5.5	4.4	1.1
6 Months	12.9	10.9	2.0
1 Year	25.3	21.7	3.6
3 Years (% p.a.)	14.3	11.6	2.7
5 Years (% p.a.)	14.9	10.9	4.0
Since Inception (% p.a.)	15.8	12.6	3.2

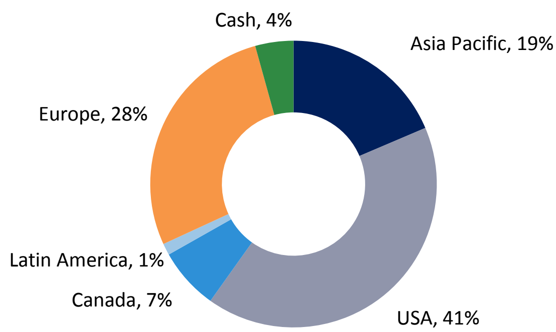
Top 10 Holdings

	Sector	%
Atmos Energy Corp	Gas Utilities	6.3
Transurban Group	Toll Roads	6.0
Xcel Energy Inc	Integrated Power	5.3
Aena SME SA	Airports	5.0
Eversource Energy	Integrated Power	5.0
Enbridge Inc	Energy Infrastructure	4.8
Aeroports De Paris	Airports	4.7
Sempra Energy	Gas Utilities	4.6
Evergy Inc	Integrated Power	4.3
Atlas Arteria	Toll Roads	4.2
	TOTAL:	50.2

Sector Exposure#



Geographical Exposure#



* 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 2013.
** S&P Global Infrastructure Index A$ Unhedged Net Total Return spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (AUD). Note: as the UBS Developed Infrastructure and Utilities Net Total Return Index (AUD) 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$ Unhedged Net Total Return.
# Sectors are internally defined. Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.

Fund Commentary

The portfolio recorded a positive return for the quarter. Stocks that added the most on a contributions basis included the investments in Atmos Energy of the US, Crown Castle International of the US and ADP of France. Atmos Energy rose 8.4% on a view its expanding rate base heralded strong growth in revenue. Crown Castle International gained 7.5% as the communication towers owner reported a higher-than-expected profit for the second quarter and the company raised its estimate for full-year earnings thanks to increased mobile traffic. ADP added 5.1% after the operator of Paris's airport system reported higher-than-expected earnings for the first half.

Stocks that detracted the most on a contributions basis included the investments in Aena of Spain, Auckland International Airport and CSX of the US. Aena fell 3.6% after the world's biggest airport operator unexpectedly said it expected tariffs charged to airlines to drop next year, rather than stay flat as the company had previously expected. Auckland International Airport lost 7.4% as analysts reduced profit growth for fiscal 2020 due to lower seat-capacity growth and reduced aeronautical pricing. CSX lost 10% after traffic on US railroads fell and investors marked down stocks seen as bellwethers for economic growth.

Movements in stock prices are in local currency.

Stock story: WEC Energy

Teaser: A US electricity and gas utility with a record of 'delivering' outperformance.

WEC Energy is a US holding company that, via seven wholly owned regulated utilities, supplies electricity and gas to 4.5 million customers in four Midwest states. The Wisconsin-based company that earned net income of US$1.1 billion in fiscal 2018 makes a rare boast; that it is "the only utility to beat guidance every year for more than a decade".

There are two ways companies beat earnings forecasts. The easy way is to undersell expectations. The hard way is to outperform honest assessments. WEC Energy, which was formed in 2015 when Wisconsin Energy bought Integrys Energy for US$9.1 billion, has outperformed the hard way every year since 2004.

The explanation for WEC Energy's success is linked to the regulatory environment under which utilities operate in the US. The heart of the model is that utilities are monopolies with exclusive rights to provide their services in a demarcated area. In exchange, they have their return on capital spending limited, a means by which regulators can ensure that prices are affordable for the utility's customers. The restrictions on price mean that the best way for a utility to boost earnings is to increase its regulated asset base (commonly referred to as its rate base) through approved capital spending.

WEC Energy's advantages are threefold. The first is that the company benefits from earning about 70% of its revenue in its business-friendly home state where regulators think that utilities deserve proper compensation for providing essential services. WEC Energy is thus allowed to earn equity returns of about 10% on US$19.8 billion worth of utility assets usually over a set period.

The second is that WEC Energy is expanding the amount of capital on which it can earn a regulated return by investing US$14 billion over the next five years. This spending has three streams. One is replacing antiquated gas pipelines and other old gas infrastructure around its Chicago service area. Another is boosting power output to meet the growing demands of its expanding home region of the US. Milwaukee, the largest city in Wisconsin, has established itself as a tech hub. The decision in 2017 by Taiwan's Foxconn to establish a US$10 billion factory in Wisconsin to build LCD panel screens added more to the optimism and growth of the state. The other capital-spending stream is an expansion into renewable energy that, in a state seeking zero emissions by 2050, is afforded unofficial regulated status in terms of forming part of the capital base on which rates are set. The company, which is in a 'renewable rich' (windy) part of the US, is turning away from coal towards natural-gas and wind generation.

WEC Energy's third advantage is that the company is well run. The company's largest utility, WE Energies, was recently named the most reliable utility in the US and the best in the Midwest for the seventh year running. Another WEC Energy utility, Wisconsin Public Service, was named '2018 Most Trusted Utility Brand'. WEC Energy's Executive Chairman Gale Klappa, who has a reputation for finding 'win-win' solutions with regulators, was named '2019 Best CEO – Electricity and Natural Gas Industry' by *Business Worldwide* magazine.

WEC Energy, all up, forms a classic case of what infrastructure and utility assets can offer investors – namely, dependable earnings streams and capital growth.

To be sure, the company has some risks. Regulators in Minnesota and Illinois where WEC Energy eyes expansion might not prove as friendly as those in Wisconsin (though those in Illinois seem to be becoming more amenable). The company's coal assets could come under more stringent environmental controls though replacing these assets presents an opportunity for approved capital spending.

Whatever WEC Energy's challenges, the company's record of outperforming counts for something. Not only has WEC Energy beaten earnings expectations since 2004, it has raised its dividend over each of those 15 years too. While expectations are high for WEC Energy, the company has the potential to outperform for a while yet.

Rewarding shareholders

WEC Energy's beginnings trace to 1896 when the Milwaukee Electric Railway and Light Company was formed to operate trains in southeast Wisconsin. In time, the company sold surplus electricity to households and businesses. Six major acquisitions over the past 120 years and WEC Energy is now one of the largest electricity and natural gas utilities in the US and the largest in the Midwest.

The company reports across four segments: Wisconsin, Illinois, Other States, and Electric Transmission. The Wisconsin slice accounts for nearly 70% of total revenue and includes the company's three key electricity and natural gas utility operations; namely, Wisconsin Electric, Wisconsin Gas, and Wisconsin Public Service.

Wisconsin is home to about three million of WEC Energy's customers. Across Illinois, Michigan, Minnesota and Wisconsin, WEC Energy boasts 2.9 million natural gas customers and 1.6 million electricity customers. These customers are served across 70,100 miles (113,000 kilometres) of electric lines and 49,000 miles (79,000 kilometres) of gas distribution. The company owns 60% of American Transmission Company, an electricity transmission company, and has a non-regulated renewable energy business.

The alignment of WEC Energy with its shareholders and customers is shown by the company's earnings-sharing scheme. When returns exceed the company's regulated rate of return by up to 50 basis points, customers and shareholders share the upside equally. Over 50 basis points, and all the gains head to customers.

As for its shareholders, the company's dividend nearly tripled from 80 US cents a share in 2010 to US$2.21 in 2018. WEC Energy, which delivered an 8% compound annual growth rate from 2008 to 2018, has flagged that it can deliver 5% to 7% annual earnings-per-share growth in the coming five years. No one should be surprised if the company outdoes this ambitious target.

Sources: Company filings and website