Fund Update: 30 September 2022

Magellan Infrastructure Fund (Unhedged)

ARSN: 164 285 830

Fund Facts

Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund, A$ Unhedged
Inception Date	1 July 2013
Management Fee[1]	1.05% per annum
Buy/Sell Spread[1]	0.15%/0.15%
Fund Size	AUD $1,050.1 million
Distribution Frequency	Semi-annually
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Net Total Return Index (A$)) 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
- 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	76
Average excess return (% p.a.)	-1.2	1.4	1.8	2.1
Outperformance consistency	8%	67%	75%	80%

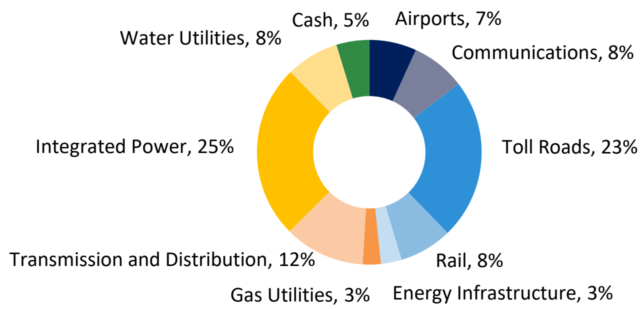
Fund Performance^

	Fund (%)	Index (%)+	Excess (%)
1 Month	-8.0	-6.0	-2.0
3 Months	-6.4	-3.5	-2.9
1 Year	0.5	4.8	-4.3
3 Years (p.a.)	-1.9	0.7	-2.6
5 Years (p.a.)	5.4	5.3	0.1
7 Years (p.a.)	5.8	5.7	0.1
Since Inception (p.a.)	9.7	8.6	1.1

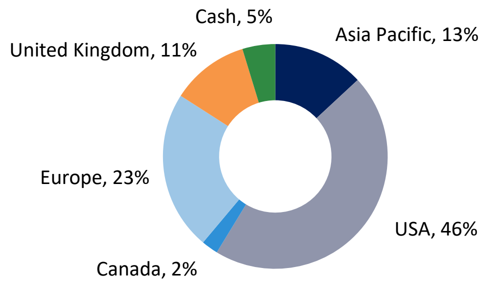
Top 10 Holdings

	Sector#	%
Transurban Group	Toll Roads	7.4
Vinci SA	Toll Roads	6.4
Sempra Energy	Integrated Power	5.1
National Grid Plc	Transmission and Distribution	4.9
Dominion Energy Inc	Integrated Power	4.8
Atlas Arteria	Toll Roads	4.8
American Tower Corporation	Communications	4.3
United Utilities Group Plc	Water Utilities	4.1
Atlantia SpA	Toll Roads	3.9
Eversource Energy	Transmission and Distribution	3.8
	TOTAL:	49.5

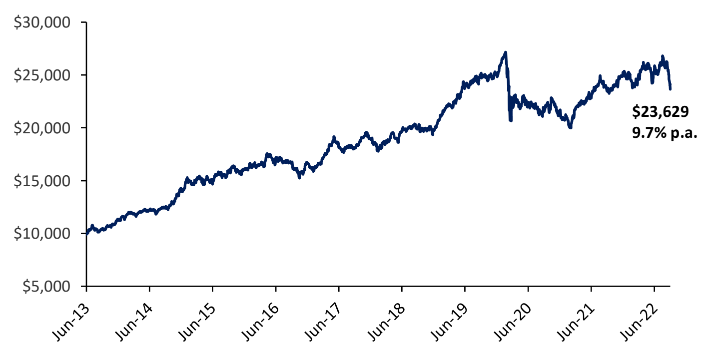
Sector Exposure#



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 2013.
* 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$) spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (A$) prior to 1 January 2015. Note: as the UBS Developed Infrastructure and Utilities Net Total Return Index (A$) ceased to be published from 31 May 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Net Total Return Index (A$).
# 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 negative return in the September quarter when higher interest rates reduced the allure of safer equities. The stocks that detracted the most were the investments in Transurban and Atlas Arteria of Australia and Dominion Energy. Transurban declined after its full-year fiscal 2022 result and distribution target for fiscal 2023 (of 53 Australian cents per unit; +30% approximately) disappointed. Atlas Arteria, which operates four toll roads across France, Germany and the US, declined after a capital raising for the acquisition of the Chicago Skyway, a US toll road. Dominion Energy fell following a poor outcome in the final regulatory order for a large offshore wind project in Virginia. The company is appealing this decision.

The only stock that contributed was Atlantia of Italy. Atlantia rose after the infrastructure group's share price was supported by the ongoing takeover process.

Stock contributors/detractors are based in local currency terms.

Stock Story: SNAM

In May, Snam paid US$350 million for Italy's first floating regasification unit. Such vessels convert liquefied natural gas brought by ship into gas suitable for transporting within the 41,000 kilometres of pipelines that the Italian gas network operator owns and operates in its homeland, as well as in Austria, France, Greece and the UK.

In July, Snam purchased another floating unit for US$400 million. The object of the spending is to help gas-import-dependent Italy cut its reliance on the Russian gas that supplied about 40% of the country's gas before the Ukraine War. Italy has already reduced its reliance on Russian gas to 25% of imports.

Such steps are tied to the energy crisis spurred by Russia's invasion of its neighbour and Moscow's subsequent moves to curtail gas deliveries in retaliation for sanctions. Snam, which earned 3.3 billion euros in revenue in fiscal 2021 (about 70% of which came from transporting gas and another 16% from storage), is poised to benefit from investment opportunities as it helps Italy turn to other countries to obtain gas.

The challenges for Snam posed by Europe's energy crisis are formidable, especially as it has had to work to ensure adequate storage levels are reached in its facilities for the coming winter. However, the task is made easier by the way Snam, as a provider of an essential service, is regulated. As an economically regulated utility, Snam's revenue is not expected to drop noticeably, as less than 1% of Snam's revenue is linked to gas volumes. Earnings are instead tied to the level of investment by Snam into the network (which is known as the 'regulated asset base') and allowed return on capital the regulator sets on this spending. This framework provides predictability and stability to the company's earnings outlook. Further, the invested capital is indexed to inflation over time, providing a protection of real earnings power for investors.

Snam's opportunity is that the Italian government is driving the push to divert the source of the country's energy supplies and this initiative requires investment. The company's spending on the floating regasification plants, for instance, earns a decent and dependable return for investors. There are likely to be other such investments required to manage the changed pattern of gas flows across the country.

Longer term, Snam will benefit from the drive to renewables. The company is expected to have a role in the transportation and storage of green gases such as biomethane and hydrogen – both considered important planks in the energy transition in Europe for hard-to-abate sectors such as industrial and heating. While this is a long-term opportunity, Snam is already flagging that it expects to spend more than 8 billion euros on developing infrastructure for the green switch.

Biomethane is a sustainable natural gas made from waste biomass such as agricultural by-products, animal droppings, dedicated crops and food waste. Green hydrogen is touted as a key part of the drive to net-zero emissions because electrolysers that split water into its two elements of hydrogen and oxygen produce emissions-free energy. Snam's gas infrastructure means the company is set for any transition to hydrogen.

In a world of energy crises and the shift to renewables, Snam's dependable regulated returns and its ability to expand its regulated asset base means the company offers the regular income and growth potential that the Magellan infrastructure team demands of stocks included in its portfolio.

Snam comes with risks, of course. The main longer-term one is that renewably sourced electricity might reduce household and business demand for natural gas by more than expected. A shorter-term risk is Snam maintaining its standing in the community to ensure regulators don't come under political pressure to lower Snam's allowable return if the company is seen to be benefiting from the energy crisis.

Each new regasification unit that helps Italy battle through Europe's energy crisis, however, boosts Snam's public standing and, as that rate base expands, its standing among investors too.