Fund Update: 31 March 2020

MAGELLAN
EXPERTS IN GLOBAL INVESTING

Magellan Infrastructure Fund (Unhedged)

ARSN: 164 285 830

Fund Facts

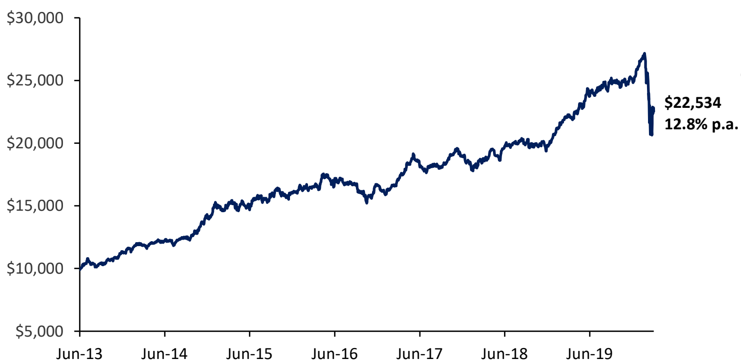
Portfolio Manager	Gerald Stack
Structure	Global Listed Infrastructure Fund (Unhedged)
Inception Date	1 July 2013
Management Fee[1]	1.05% per annum
Buy/Sell Spread[1]	0.15%/0.15%
Fund Size	AUD $1,065.7 million
Distribution Frequency	Six Monthly
Performance Fee[1]	10.0% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A$ 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*



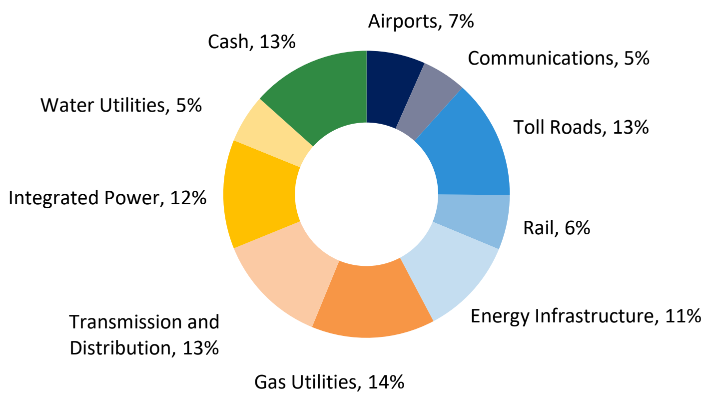
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-9.1	-18.9	9.8
3 Months	-9.5	-18.8	9.3
6 Months	-10.1	-18.3	8.2
1 Year	1.5	-9.4	10.9
3 Years (% p.a.)	9.5	3.1	6.4
5 Years (% p.a.)	8.4	3.2	5.2
Since Inception (% p.a.)	12.8	8.3	4.5

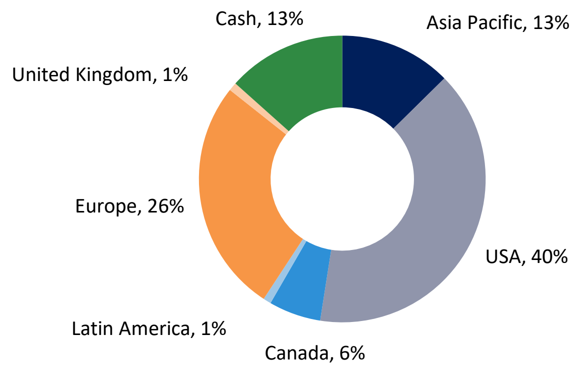
Top 10 Holdings

	Sector#	%
Atmos Energy Corp	Gas Utilities	6.4
Red Electrica De Espana SA	Transmission and Distribution	5.1
Crown Castle International	Communications	5.0
Eversource Energy	Integrated Power	4.9
Enbridge Inc	Energy Infrastructure	4.8
Xcel Energy Inc	Integrated Power	4.7
Transurban Group	Toll Roads	4.6
Vopak NV	Energy Infrastructure	4.6
Sempra Energy	Gas Utilities	4.4
American Water Works Co Inc	Water Utilities	3.6
	TOTAL:	48.1

Sector Exposure#



Geographical Exposure#



Sectors are internally defined. Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.

* 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.

Fund Commentary

The portfolio recorded a negative return for the March quarter when global stocks plunged after the novel coronavirus escaped from China and battered economic activity, corporate earnings and investor sentiment around the world.

Stocks that detracted the most included the investments in the airport operators Aena of Spain, ADP of France and Sydney Airport, and in Atlas Arteria and Transurban, toll-road operators from Australia. Aena, the world's largest airport operator, and ADP, which runs the airports of Paris, and Sydney Airport dived after the outbreak of the virus that causes the illness called Covid-19 prompted governments to close borders and order their populations not to travel to control the pandemic. Atlas Arteria and Transurban slumped on a view that restrictions on movement and likely recessions would curb traffic on their toll roads in Australia, Europe, Canada and the US.

Stocks that contributed the most included the investments in Crown Castle International of the US, Koninklijke Vopak from the Netherlands, and US utilities Xcel Energy and Evergy. Crown Castle rose as investors judged that the company that owns more than 40,000 communications towers in the US that provide co-location space to wireless carriers would benefit from higher demand for data across mobile telephony and the internet and after a federal court's approval for the T-Mobile-Sprint deal was seen as spurring demand for the company's communications equipment. Vopak fell as oil markets moved to contango increasing the demand for storage. (A contango situation occurs on commodity markets when its futures price is higher than the spot price). The US integrated power utilities held up better than the rest of the sector as investors sought defensive stocks.

Stock Story: Eversource Energy

EVERSOURCE

In 2024, Greater Boston will lose a reliable but highly polluting source of power when the Mystic Generating Station closes. Step up the locally based Eversource Energy that, in partnership with the UK's National Grid, has submitted eight proposals that the pair say will deliver reliable, affordable and, above all, clean energy to the north-eastern state of Massachusetts where Boston lies.

A cleaner future is a common promise of Eversource that, through subsidiaries, earned US$8.9 billion in revenue in fiscal 2019 by delivering electricity and water in Connecticut, New Hampshire and Massachusetts and natural gas throughout Connecticut and Massachusetts.

The company that is the largest supplier of power in the New England region of the US has announced an ambitious goal to become carbon neutral by 2030, about two decades ahead of its peers. As proof of its intent, Eversource Energy achieved a 69% reduction in gas emissions in metric tonnes from 2014 to 2018 by reducing the emissions of its fleet and improving the efficiency of its plants.

What's interesting for investors is that Eversource's business case is built on a cleaner future. The plans of the company, which delivered a more-than-adequate 6% annual growth in earnings per share from 2012 to 2018, has two strands. To understand the first, it helps to revisit the regulation model that US utilities operate under. The core of the model is that utilities are given a monopoly right to provide their services in a defined territory but the return on their capital spending is limited to ensure that they provide affordable services to customers. The way, therefore, for a utility to increase gross earnings is to spend more on approved capital works.

Eversource Energy's main strategy to boosts its earnings-per-share growth to 5% to 7% a year is to spend US$14.2 billion over the five years to 2024 to replace gas and water pipes and upgrade electricity grids to support New England's goal for cleaner energy resources. Another part of this strand is that Eversource Energy intends to acquire small utilities where compelling opportunities arise, which will allow for more regulated returns on an expanded amount of capital spending. As an example of this intent, the company just paid US$1.1 billion to NiSource for the Massachusetts natural gas distribution assets of Columbia Gas.

The second strand of Eversource Energy's plan sits outside regulated returns but is promising nonetheless. The company is investing in higher-risk (albeit with 20-25 year power purchase agreements) offshore wind projects with an aim to push annual earnings growth beyond 7% a year after 2024. In what was the biggest venture by a US utility into offshore wind farms, Eversource Energy last year paid US$225 million to Ørsted, the Denmark-based company that is the world's largest offshore wind farmer, for a 50% stake in two projects planned off New England and an interest in a 650-square kilometre (257-square mile) development site in the nearby Atlantic Ocean.

Eversource Energy's two-pronged plan to boost returns appeals because the company, which has a record of overdelivering, offers what people look for when investing in utilities; namely, regular income with the promise of capital growth.

While Eversource Energy has a history of delivering superior total shareholder returns (a seven-year average recurring earnings-per-share and dividend growth of 6.1% and 7.2% to give the numbers), there are risks. Eversource Energy's businesses are complex, and things can go wrong. A decision to abandon plans for a transmission line that would have connected Canada to New England, for instance, nearly wiped out the company's profit in the second quarter of last year because it had to book a US$200 million charge for the failed project. The three large Eversource-Ørsted wind projects are only in planning permission stage and such big ventures often come with delays and risk. Eversource Energy is carrying debt of about US$12.6 billion though, in the midst of the virus-triggered ructions, Standard & Poor's in February reaffirmed the utility's debt rating at A- and said the outlook remained stable. Like other utilities, Eversource Energy was battered during the recent market slump. But the stock only declined 8.1% over the March quarter, much less than the S&P 500's plunge of 20%. Put that outperformance down to the confidence of investors that the clean-energy regulated business model of Eversource Energy will deliver in coming years.

Old assets

Like many US utilities, Eversource Energy has a complicated history that extends back to the 19th century, which is why so many of its assets need replacing. The company emerged from Northeast Utilities, which was formed in 1966 when three electricity utilities founded respectively in 1917, 1886 and 1878 merged. Northeast Utilities later absorbed a water utility that was established in 1859.

A significant milestone came in 2012 when Northeast Utilities and its four operating companies merged with NSTAR Electric & Gas. Another event of note is that the company renamed Eversource Energy in 2017 bought Aquarion Water Company, making Eversource Energy the only electricity company in the US to own a water utility.

In its present guise, Eversource Energy delivers electricity and natural gas and supplies water to four million customers via its six distinct utility companies. To do that, the company operates about 630,000 overhead and underground lines and more than 8,500 square kilometres (3,300 square miles) of natural gas distribution.

Eversource Energy's claims to good citizenship extend beyond its clean-energy claims. The company was named the No. 1 energy company in *Newsweek's* list of the US's Most Responsible Companies for 2020. It was recognised as one of the US's Most JUST Companies and the top utility by *Forbes* magazine and JUST Capital. Such awards can only help impress the officials scrutinising the company's clean-energy plans for Greater Boston once the polluting Mystic plant is shuttered.

Sources include company filings and website, Bloomberg and Hoover's, a Dun & Bradstreet Company.

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