

Ever thought of investing in essential services?

SUPPORTING YOU EVERY MINUTE OF EVERY DAY



Infrastructure and utility stocks have been around a long time – the oldest listed utility, Consolidated Edison of the US, traces its listing to 1824. Yet it wasn't until the 1990s that the asset class became a viable option for everyday investors.

More than 350 infrastructure and utility companies are listed on global stock markets, representing a market cap in excess of US\$4 trillion; about three times the market value of the Australian stock market*. There are sound reasons why people should include these stocks in a diversified portfolio. They might be surprised just how much infrastructure and utility companies support their daily lives.

Infrastructure, by general definition, refers to large, fixed long-term assets that deliver essential services. While utilities, highways and pipelines are commonly regarded as infrastructure, there is no agreement on whether or not data centres, car parks and other such assets form part of this universe. Irrespective of the murkiness of defining infrastructure, the case for the asset class can be made by looking at the attributes of infrastructure companies (where the term from now on covers infrastructure and utility companies).

WHY INVEST IN LISTED INFRASTRUCTURE?

Infrastructure is a distinctive asset class in three ways:

INFRASTRUCTURE CAN DELIVER SOLID AND STABLE EARNINGS

The vast majority of infrastructure assets typically face constant demand, limited competition and a stable regulatory environment. Infrastructure is thus well positioned to generate reliable cash flows and solid and stable earnings growth, no matter what economic conditions prevail.

INFRASTRUCTURE OFFERS INFLATION PROTECTION

Infrastructure comes with natural or built-in protection against inflation because regulators allow these companies to raise their prices to protect their earnings when their costs rise.

INFRASTRUCTURE HAS LOWER RISK OF CAPITAL LOSS

Assets that have reliable earnings growth and stable income streams are typically havens – sources of stability – in times of market declines.

Including infrastructure in a diversified portfolio can enhance returns and reduce portfolio risk.

Infrastructure – always in demand

Investing in infrastructure is about investing in the companies that provide essential services to society. We are so used to these services in our lives that perhaps we underestimate the range of essential services that are provided the world over, every minute of every day.

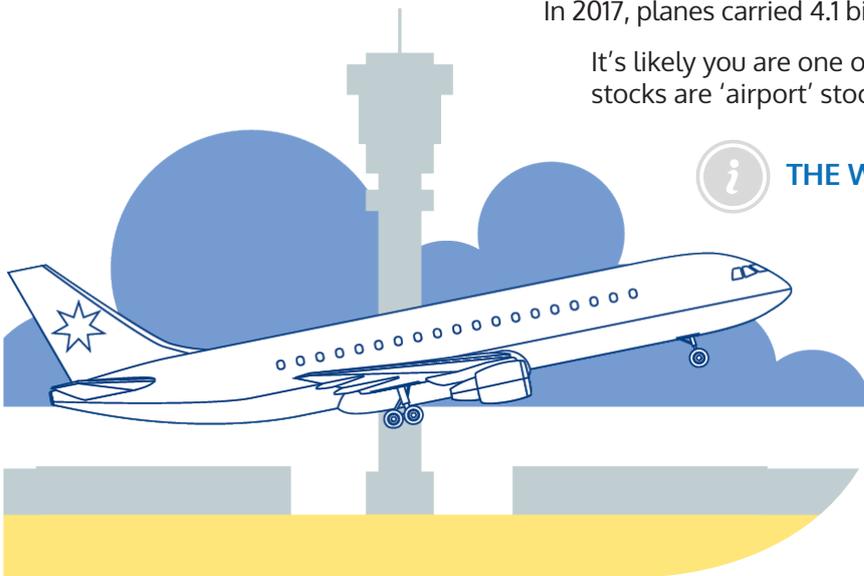
AIRPORTS

In 2017, planes carried 4.1 billion passengers worldwide through the world's airports.¹

It's likely you are one of those flying somewhere. About 16 global infrastructure stocks are 'airport' stocks. These include Sydney Airport and Zurich Airport.



THE WORLD IS HOME TO ABOUT 41,800 AIRPORTS.²



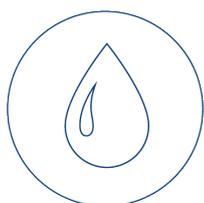
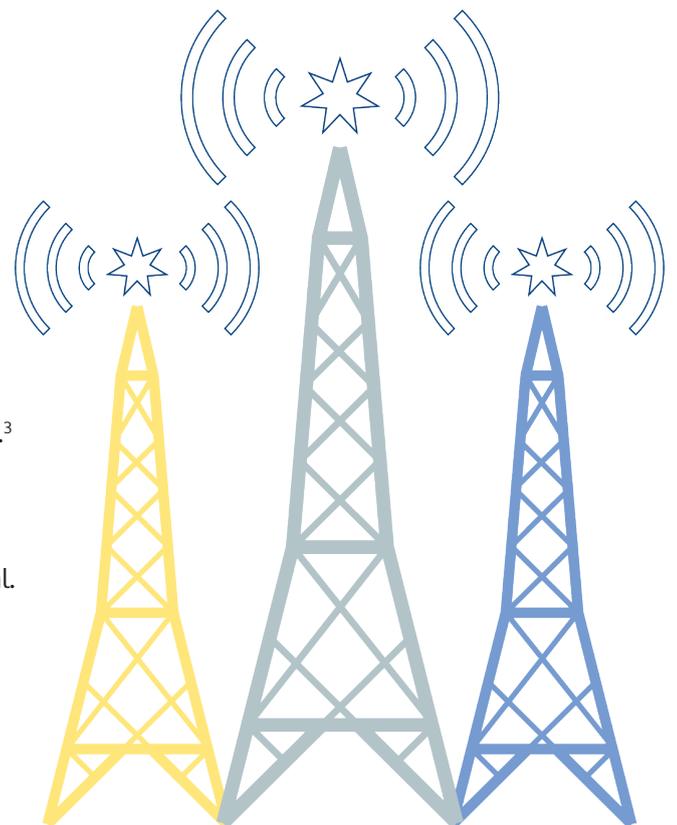
COMMUNICATION TOWERS

The phenomenal growth of the internet and mobile devices mean that enabling mobiles makes communication towers even more of an essential service. Worldwide there are an estimated 3.4 million towers.³

The biggest tower operators have a large reach. American Tower, for example, has about 170,000 towers across 16 countries in five continents⁴. About nine global infrastructure stocks are telecommunication tower stocks. Another is Crown Castle International.



GLOBAL MOBILE DATA TRAFFIC IS EXPECTED TO GROW SEVENFOLD OVER THE NEXT FIVE YEARS.⁵



WATER

Water is perhaps the most essential of all services provided. Australian households, businesses and other bodies spend about \$8 billion⁵ on the 38 Sydney Harbour equivalents of water they use each year.⁶ The average household bill is \$584 a year. About 17 global infrastructure stocks are 'water' stocks. These include United Utilities of the UK and American Water Works.



HUMANS CAN USE ONLY ABOUT 0.3% OF THE WORLD'S SUPPLY OF WATER.⁷





NATURAL GAS

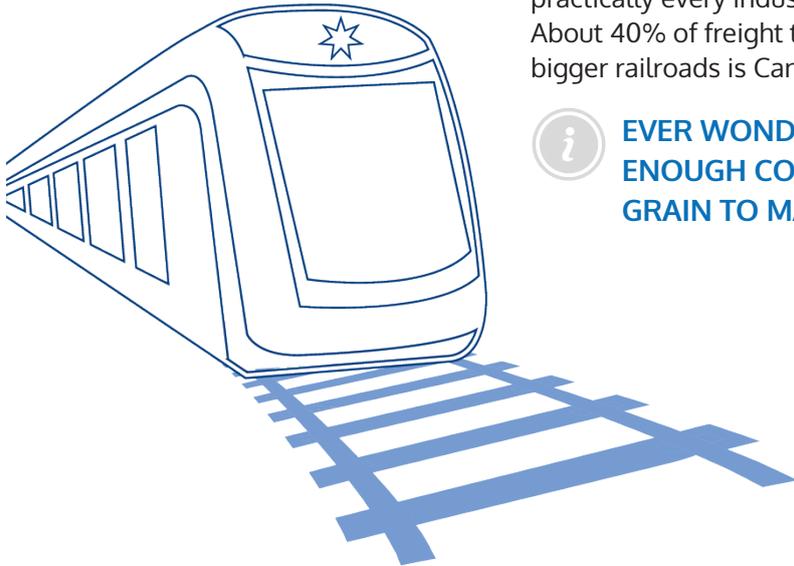
Natural gas is nearly as interwoven into our daily lives as electricity. In Australia, more than 37,000 kilometres of natural gas transmission pipelines shift gas from where it is produced to the outskirts of cities and towns. Natural gas supplies about 20% of Australia's energy needs.⁸ About 12 global infrastructure stocks are 'natural gas' stocks.



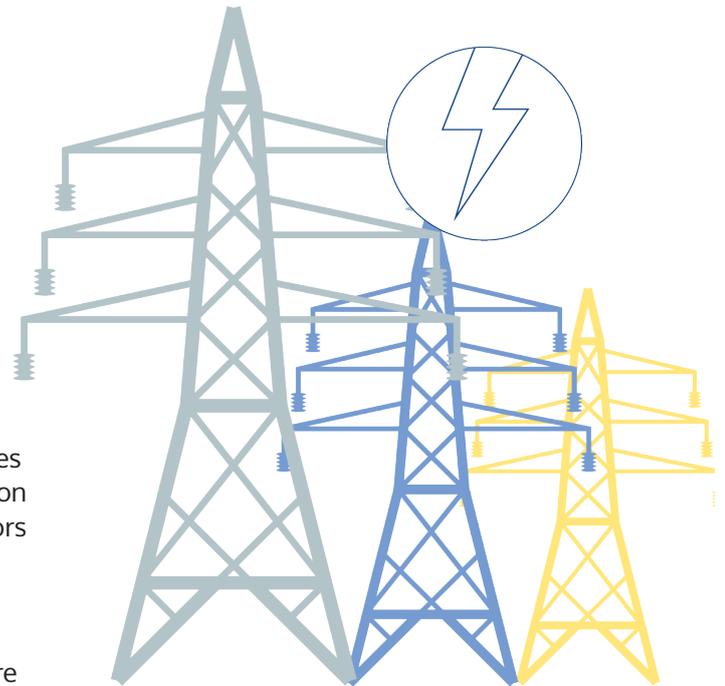
GAS IS SHRUNK BY 600 TIMES TO FORM A LIQUID SO IT CAN BE TRANSPORTED.⁹

RAIL

From agriculture to automotive parts to chemicals and coal, railroads serve practically every industry and form an essential mode of transport for communities. About 40% of freight that moves between US cities is moved by rail.¹⁰ One of the bigger railroads is Canadian Pacific Railway.



EVER WONDERED WHAT FITS IN ONE FREIGHT RAIL CARRIAGE? ENOUGH CORN TO FEED 37,000 CHICKENS FOR LIFE AND ENOUGH GRAIN TO MAKE 258,000 LOAVES OF BREAD.¹¹



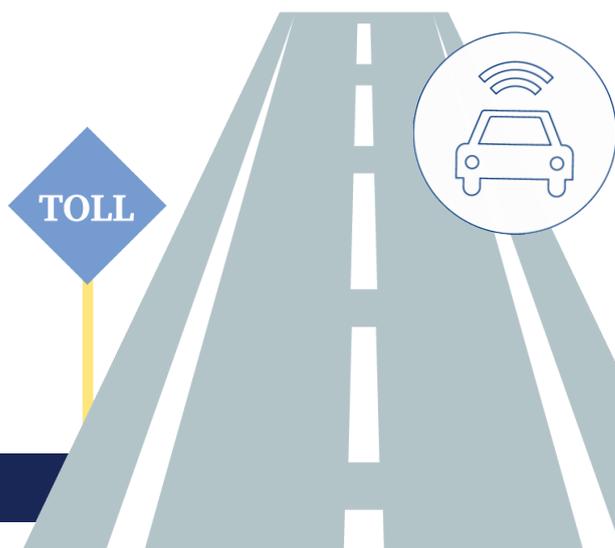
ELECTRICITY

Modern life wouldn't be very modern without the electricity that arrives via the grid. In the US, the grid transmits electric power from generation plants through 262,000 kilometres of high-voltage electrical conductors and more than 15,000 transmission substations.¹²

The average US household spends US\$114.03 per month on power.¹³ About 48 global infrastructure stocks are 'electricity' stocks. National Grid of the UK, Spark Infrastructure of Australia and Sempra Energy are three of them.



ELECTRICITY WASN'T 'INVENTED'. IT WAS 'DISCOVERED' BECAUSE IT IS PRESENT IN NATURE.



TOLL ROADS

Toll roads have been around for thousands of years. Today the US has 8,740 kilometres of toll roads. They host more than five billion trips a year.¹⁴ About 10 global infrastructure stocks are 'toll road' stocks which includes Transurban of Australia.



SYDNEY'S TOLL ROADS HOST 700,000 TRIPS ON AVERAGE EACH DAY.¹⁵

MAGELLAN'S INFRASTRUCTURE PHILOSOPHY

Our investment approach for infrastructure and utilities is founded on two principal objectives: to achieve attractive risk-adjusted returns over the medium to long term and to reduce the risk of permanent capital loss. As a result, we are an absolute-return focused manager that aims to invest in companies at prices that deliver attractive risk-adjusted returns over a three-to five-year period.

WHAT SETS OUR APPROACH APART?

Where our strategy is different is that we apply a stricter definition to what qualifies as infrastructure and a utility. We believe that a key reason why people invest in infrastructure and utilities is that they are seeking the reliable returns that are associated with the asset class. To achieve this objective, we limit our investment universe to stocks that provide investors with predictable, through-the-economic-cycle, inflation-linked returns. This means we exclude stocks whose earnings are sensitive to competition, sovereign risk and changes in commodity prices.

The stocks we consider for the strategy are mainly drawn from two sectors:

- Regulated utilities, which includes energy and water utilities. We estimate that utilities comprise about 60% of the potential investment universe for the strategy. Utilities are typically regulated by a government-sponsored entity. Such regulation requires the utility to provide an essential service while efficiently allowing the utility to earn a fair rate of return on the capital it has invested.
- Infrastructure, which includes airports, ports, railroads, toll roads, communications assets and energy infrastructure (oil and gas pipelines).

MAGELLAN'S INFRASTRUCTURE TEAM

Our infrastructure team consists of eight investment professionals headed by Gerald Stack. The team manages over A\$10 billion* for large and small investors based around the world:

Gerald Stack

Gerald joined Magellan in 2007 and is Head of Investments and leads the team responsible for managing Magellan's infrastructure portfolios. Gerald has more than 25 years of infrastructure investment experience.

Ofer Karliner

Ofer joined Magellan's Infrastructure Team in 2016 and was promoted to Portfolio Manager in 2017. Ofer has more than 20 years of infrastructure investment experience.

Ben McVicar

Ben joined Magellan's Infrastructure Team in 2013 and was promoted to Portfolio Manager in 2017. Ben has more than 10 years of investment experience.

MAGELLAN INFRASTRUCTURE FUND

Our infrastructure strategy seeks to provide efficient access to the stable returns offered by the infrastructure asset class while protecting capital in adverse markets. The strategy typically holds between 20 and 40 infrastructure and utility stocks.

To learn more on how to access our Infrastructure funds, go to magellangroup.com.au/funds/forms-pds/

MAGELLAN INFRASTRUCTURE FUND

MAGELLAN INFRASTRUCTURE FUND (UNHEDGED)

MAGELLAN INFRASTRUCTURE FUND (CURRENCY HEDGED) (MANAGED FUND) (ASX:MICH)

* As at 30 June 2018.

^ Cisco VNI: Global Mobile Data Traffic Forecast Update, 2016-2021 (March 2017).

1 IATA Annual Review 2018

2 Central Intelligence Agency. The World Factbook. 'Field listing: Airports'. Numbers are for 2013. <https://www.cia.gov/library/publications/the-world-factbook/fields/2053.html>

3 Morgan Stanley Research. 'Global telecommunications. Hidden value in tower portfolios.' 19 July 2016. Page 9.

4 American Tower Corporation: An Overview Second Quarter 2018

5 The Australian Water Industry. 'Water industry fact sheet'. <http://www.h2oz.org.au/Beneath-the-Surface/The-H2Oz-Industry/Water-Industry-Fact-Sheet.aspx>

6 Australian Bureau of Statistics. 'Australians paying more for less water.' Media release. 29 November 2015. <http://www.abs.gov.au/ausstats/abs@.nsf/39433889d406eeb9ca2570610019e9a5/cf764a3639384fdcca257233007975b7!OpenDocument>

7 '20 interesting and useful water facts.' AllAboutWater.org. <http://www.allaboutwater.org/water-facts.html>

8 Australian Pipelines & Gas Association. 'Facts and figures.' <http://www.apga.org.au/industry/facts-and-figures-about-pipelines-and-gas/>

9 British Gas. '11 amazing and surprising facts about energy.' <https://www.britishtgas.co.uk/the-source/our-world-of-energy/surprising-world-of-energy/energy-facts>

10 US Department of Transportation. 'Freight rail overview.' fra.dot.gov/Page/P0362

12 Association of American Railroads. 'Ever wonder what fits in one rail car?' Undated. freightrailworks.org/commodities/ever-wonder-what-fits-in-one-rail-car/

13 The National Academies Press. 'Electricity transmission and distribution.' <https://www.nap.edu/read/12091/chapter/13>

14 US Energy Information Administration. '2015 average monthly bill – residential.' https://www.eia.gov/electricity/sales_revenue_price/pdf/table5_a.pdf

14 IBTTA. 'Debunking the myths of highway tolling.' Figures are for 2011. <https://ibtta.org/sites/default/files/documents/MAF/5%20Myths.pdf>

15 Transurban, Roads & Maritime Services

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