

Magellan – In The Know: Episode 41

The pipelines to prosperity: the dependability of infrastructure investment



Announcement ([00:00](#)):

The information contained in this podcast is for general information purposes and does not constitute investment advice. You should seek investment advice tailored to your circumstances before making an investment decision.

Host ([00:14](#)):

This is In The Know, a monthly investment podcast brought to you by Magellan Asset Management. In these volatile times, it's reassuring to know that there are solid, dependable sectors in which to invest. Infrastructure has rightfully earned its place in investors' portfolios by providing a high degree of confidence that their wealth will grow through time.

([00:41](#)):

Welcome to Magellan In The Know. In this special episode, we revisit some fascinating interviews with senior executives from two of North America's most important infrastructure companies, both of which are holdings in Magellan's infrastructure portfolio. First, we will hear from Susan Hardwick, the president and CEO of American Water Works, the biggest publicly listed water utility company in the United States. Then we talk to Jeff Martin, the chairman and CEO of Sempra, an energy infrastructure company delivering the energy needs of more Americans than any other firm. Portfolio manager Jowell Amores interviewed both of these impressive executives about their strategies and how they continue to build ongoing value for shareholders. So let's get into the first discussion with Susan and Jowell.

Jowell Amores ([01:28](#)):

American Water's been a portfolio holding for over a decade and has generated some of the most attractive and more importantly, most consistent returns in our investable universe. Earnings growth is compounded at an average rate of 11% per year since the company IPO'd back in 2008. And just in the last 10 years as at the end of 2022, American Water has rewarded their patient investors with total shareholder returns of 400%, well ahead of the S&P 500's 227% return. Now that's incredible considering what we've been through over the last five years. So perhaps before we get started, Susan, can we begin by asking you to tell us a bit about it yourself?

Susan Hardwick ([02:10](#)):

I joined American Water in 2019, began working with the team then to round out the financial organisation. Then we had a pandemic and then our CEO, Walter Lynch, who was the CEO shortly after I joined the company, actually suffered an injury. Walter's fine now, fully recovered, but after that recovery, he decided it was time to retire and the board asked me to step into this role. So I've had the real privilege to take on the CEO responsibilities a little over a year ago now and continue to work with this terrific team as we've continued to build a good team and continue to think about our longer term strategy. So lifelong industry person. Water was new for me four years ago, but so much about what we do here I'm quite familiar with from a regulatory perspective. So it's just been a real pleasure to get to know this team and this industry and continue to think about what the future holds for American Water.

Jowell Amores ([03:07](#)):

That's fantastic, Susan, and no doubt you've been a big part of the returns that American Water has given investors over the past 10 years. And for our listeners who might not be particularly familiar with American Water in the U.S. water utility sector, can you give us a one-on-one about American Water?

Susan Hardwick ([03:25](#)):

Yeah, sure. Happy to. And it's a great question. It really is. I think an interesting story. And again, like I said, I've been in the industry forever and frankly knew very little about the water utility sector before I joined, and that I think says a lot. It is a, I would describe it probably as one of the best-kept secrets in the world of utility investment opportunities or just utility operations generally. It is a very traditional, what I would call a very traditional regulated company. We operate in 14 regulated jurisdictions across the United States from California all the way to New Jersey, Maryland, Pennsylvania, a lot of East Coast operations. We serve, as you said Jowell at the outset, about 14 million people through and about 3.5 million direct connections. We've got 6,500 employees across our footprint.

([04:18](#)):

We are focused, I'd say almost exclusively on infrastructure, repair, and replacement work. So in layman's terms, our job is to put pipe in the ground, get a return of that investment and a return on that investment. It is the most pure regulatory story I think in the entire utility sector. We don't have much in the way of non-regulated companies. We have a military services group, which I'll talk a little bit about as we get into our discussion today. But it is again, I think a very pure regulated story. So we put investment to work.

([04:56](#)):

We are successful in the regulatory arena because I think, again, it's a pretty straightforward story and we've been quite successful at regulatory outcomes, both from a creative and innovative perspective as well as traditional recovery. And we've got good legislative support throughout our jurisdictions too, that give us opportunity to accelerate investment. And I just think, again, it's a big business as I gave you a sense of the size of the business. So it's large, but it's very, very straightforward. And that's one of the reasons I think that from an investment return standpoint, we've been very steady, very predictable, very reliable in terms of what we're able to deliver back to shareholders.

([05:41](#)):

So that's American Water as its place in the industry. Now, the larger perspective on the water industry I think is one again that most investors, and really honestly I would just say the general public probably doesn't understand about how the water infrastructure system is in the United States. There are over 50,000 water and wastewater suppliers in the country, and you contrast that to the number of electric utilities or gas utilities in the country, in the 40s, 50s number. 52,000 people providing this service. And we are one of, call it eight investor-owned utilities. We are the largest by probably a factor of three. If you think about infrastructure generally as a country, we are on roughly a 200-year replacement cycle.

([06:32](#)):

Now, when I first joined American Water four years ago, somebody told me that statistic and I said, "There's got to be a decimal in the wrong place. Don't you mean 20 years?" And no, the answer is 200. At American Water, we're leading the industry and we're roughly at 115 year replacement cycle. So if you think about that from two perspectives, you can say, "Well, gee whiz. That's a long time." It's over a century before we have this system fully refreshed, if you will. But the other side of that is from an investor standpoint, we're going to be doing this for the next 115 years, spending \$3 billion a year investing in the systems, going through the regulatory process, getting recovery, and earning that

roughly 10% return on that investment. So from an investor perspective, this is the best game going in terms of stability and just long-term view and predictability of results.

Jowell Amores (07:26):

Yeah, no. That's a very exciting thematic and obviously one that we're large believers in. And I think you touched on a couple things here, which we'll dive into later. But before we dive into your business model and the long-term strategy, let's maybe set the scene and talk about the current backdrop you're operating at the moment. So U.S. infrastructure is in pretty ordinary shape. In fact, in the last iteration, the American Society of Civil Engineers gave the country's infrastructure an overall grade of C-, which is according to them, less than mediocre. Now, mediocre is arguably a generous description. So how does water and wastewater in the U.S. stack up in all this? How mediocre is it? I know that it was given a C- in terms of drinking water and wastewater as well. Is it really that bad?

Susan Hardwick (08:16):

Jowell, I think our answer to that would be yes. That's why we believe what we're doing here is, sure, we're an investor-owned company, but we also believe that we have a significant mission here. We have a significant purpose in the drive for solutions to the problem you're describing. And I was actually at a meeting yesterday with our National Association of Water Companies and we were talking about this very issue and we were talking about, how can we get more focus on the need? And I do believe it is around awareness. I mean, I just told you I've been in the industry for 40 years and up until four years ago, I had no idea that the infrastructure for the water and wastewater systems in this country were in the shape that they were in. I mean, it is a very tightly held secret for whatever reason.

(09:08):

And I think it is because again, we've got 50-some thousand people trying to do this work, and they're doing the best jobs they can relative to all the other priorities that they have. But at a national level, and I think even at a state regulatory level, it's just not widely understood the state of this infrastructure. So again, it's a troubling environment, but it creates a great opportunity for companies like ours who have the size and scope and scale that we have to be able to generate capital. We have outstanding access to capital. We can do so at reasonably low cost. We can make the investments on behalf of customers. We can improve the overall infrastructure landscape, and we can make pretty substantial progress.

(09:57):

Again, that 200 year to 115 years. It may sound like again, 115 years is untenable, but if you're talking about 200 versus 115, I mean, you can see that the progress we've been able to make because of the size and scope that we have to try to address those issues. We need to address things like just state of infrastructure. We need to address things like preservation of the resource. So where is the treated water going? Another statistic I found interesting as a country, roughly 20% of the treated water, so this is water ready for you to drink, your kids to drink. 20% of that treated water we lose before it gets to the ultimate customer.

Jowell Amores (10:38):

Yeah, that's an interesting one too. The other one I heard was that there's a water main break every two minutes, so effectively losing 6 billion gallons each day, and that's about a little under 23 billion litres per day or the equivalent of 9,000 swimming pools. So you'd think that that would be... That's a jarring statistic.

Susan Hardwick (10:56):

It is. It really is jarring. And of that 20% treated water that we're losing, I mean, main breaks are obviously a large contributor to that, but also just the pipes themselves. I mean, when we take over systems, we'll find

that the pipes have deteriorated to a point where we're literally just distributing water through solidified dirt pathways or partial concrete, partial plastic, whatever, just pieces of pipes that are still in place. So of course, seepage is also a big contributor. And again, you contrast that 20% to in the electric industry, line losses, what, 4% or 5%, 6%. Gas loss, 1%, 2%. We're talking 20%. So there's real opportunity here. And again, you just have to think about this from both sides of the equation, state of play, which is not good and needs to be addressed, and investment opportunity that a company like American Water is really trying to push forward. And again, when you think about the simplicity, and again, I say it to our team all the time, we just put pipe in the ground and we get our money back plus a return on it. That's what we do.

Jowell Amores ([12:07](#)):

Now, has the value proposition changed over the past decade? We talk about the incredible returns you've delivered for shareholders over the last 10 years. What should shareholders expect from American Water, from AWK shares over the next 5 to 10? More of the same?

Susan Hardwick ([12:24](#)):

Absolutely more of the same. Now, I can't sit here and tell you that we're going to... I don't know what we closed that today, but we're going to go from \$138 a share to \$200 a share. I'm not going to make those kinds of predictions because there's so much of that macro backdrop that affects the absolute values here. But you can count on the fact that we will continue to deliver this quality of service. We will continue to deliver on our mission, which is to improve the state of infrastructure in this country, to continue to focus on opportunities to deliver quality water, water and wastewater services to more and more people.

([13:03](#)):

And we'll do so in a very responsible way. Environmentally, all of the things that go with the word responsible, including financial responsibility. We've got an excellent balance sheet. And again, it helps, Jowell, and I'll just be again completely honest with you. It helps that this business is pretty simple. I mean, it's big, but it's pretty simple and that helps keep people focused. We're not distracting people with a lot of ancillary businesses, a lot of risk appetite. That's beyond what is the basic business here. And I think that matters a lot, particularly in this environment.

Jowell Amores ([13:39](#)):

Now, our discussion wouldn't be incomplete if we didn't talk about the risks for the utility. And those have evolved too. So over the near term dealing with, I imagine with inflation and interest rates, can you briefly touch upon that as well as some of the other larger risks at play? Obviously regulatory, but more so cybersecurity. You're responsible for a very important piece of infrastructure. Can you talk around some of these risks for the business?

Susan Hardwick ([14:06](#)):

Yeah, and you've hit on all the key categories. I mean, when you think about this macro stuff I've been talking about, inflation, interest rates, etc., obviously big impacts to any organisation, and certainly we're not immune from that. We're the largest buyer of pipe in the country. Our three largest costs are chemicals, power, and labour. So chemicals of power, obviously very much subject to these inflationary impacts. We've done a wonderful job, in my opinion, managing through that through our supply chain. The supply chain has done a wonderful job of renegotiating contracts, working with suppliers to make sure we have access to supplies at reasonable prices. And we've also been very successful in the regulatory arena, making sure that we get recovery of those costs. But that's really the issue. All of these costs eventually make their way to the customer's bill. So that's the difficult part of this environment

that we're in. But how do you manage all of those inflationary impacts along with the need to spend the capital and the need to make the investment at a rapid pace? So that's the challenge around that particular part.

[\(15:21\)](#):

You mentioned cybersecurity. I think it's an interesting topic and it's obviously one we spend a lot of time on. We're actually working directly with the White House and the various task force on cybersecurity to address larger concerns around infrastructure. The weird thing about the water sector though, unlike the electric grid as an example, it's not integrated. So when you think about the opportunity that cyber threats have on the electric system to do some sort of attack and essentially wipe out a significant part of the country or even all of the electric grid, it's not possible in the water sector. So that's a mitigating factor. I know that sounds weird, but it is a mitigating factor. Because our systems are so poorly connected, it's difficult to disrupt a large section of the population.

[\(16:16\)](#):

Now what can happen, and we've seen a bit of this in not American water territory, but in the water industry, we've seen a few examples where bad actors have hacked into our water treatment plants. Not ours again, but a water treatment plant and hacked into the control system and changed the mix of chemicals going into the treatment plant. Now in this particular case, it was detected, human detection before it affected any of the end users. But that's the risk I think in our sector that someone is... It's not that they're taking out a large section of the population, but they're able to potentially hack into a system that could do bodily harm to people through the treatment process.

[\(17:02\)](#):

We've got controls around all of that, and we've got a very robust cybersecurity team. And like I said, the head of our cyber team here leads a number of national efforts around cybersecurity in the water space. So we feel like we're in good shape and a great place to work through those issues. But they are real, and I just think they're probably less of a threat for us than perhaps other sectors of the utility space, simply because again, the way the systems are constructed.

Host [\(17:33\)](#):

We hope you enjoyed the insights with American Water president and CEO Susan Hardwick. Listen to the full episode on the Magellan website. Okay, staying in the utility space, Jowell now speaks with Jeff Martin, the chairman and CEO of Sempra, an infrastructure company delivering the energy needs of more Americans than any other firm in the United States. Sit back and enjoy this fascinating exploration of the methodology behind the management of this huge and successful company. Now here's Jowell.

Jowell Amores [\(18:05\)](#):

So Sempra has been a portfolio holding for quite some time now. I actually can't recall off the top of my head exactly how long we've had this in the portfolio, but for those lucky enough to have been invested in Sempra since its beginning back in 1998, you'd have enjoyed returns of nearly 1,200% versus 435% for the S&P 500. So that's incredible considering the transformation over that time. Even in 2022, there was a tidy 20% total return for shareholders. Most of our listeners will have heard this before, but Magellan's investment process spends a lot of time assessing agency risk or governance, if you will.

[\(18:45\)](#):

So this is really all about entrusting your hard-earned money with someone that will have your best interests at heart as a shareholder. This is important because for Sempra, they're investing \$40 billion

U.S. over the next five years, so about half their enterprise value. On paper, it looks like Sempra is a large regulated utility along with some LNG assets, but it's more than that. So can you share with us and our audience what they're actually invested in when they own Sempra stock? Why does this business model make sense and why does this business model work?

Jeff Martin (19:22):

I would start by saying that an investment in Sempra, you're investing behind a management team where we're the activists. Our job every day is to come to the office and find new and better ways to serve customers and drive value to our shareholders. And it comes back to something we talked about earlier, which is our mission is to build the leading energy infrastructure company in North America. We're incredibly serious about it. We have a dedicated team that spends a lot of time talking about it, and we've organised the business around three growth platforms that are in the most important economic markets in North America. And I think this is a critical point. People rarely understand that utility EPS growth is loosely correlated to GDP growth. So if you want to see utilities that grow faster than their peers, you need to be investing in the markets that are growing the fastest economically.

(20:13):

So when you think about, Jowell, someone builds a new residential subdivision, the utility, the incumbent utility has to extend their transmission distribution franchise to that new residential community. So loosely speaking over long periods of time, utilities in bigger economic markets with superior economic growth provide the best returns. So speaking to Sempra, California is the fourth-largest GDP market in the world. So obviously the number one GDP market in the United States, we have the number one utility footprint between SoCalGas and SDG&E in California. Texas, we're the largest pure play T&D business in Texas. In fact, that model, which does not include generation, is the largest pure play T&D model in the United States. And Texas is ranked as the ninth-largest economy in the world.

(21:05):

And in Mexico, we are the largest foreign investor in that country with close to \$13 billion invested. It's ranked number 15 in the world on a GDP basis, and most estimates with reshoring and decoupling from China show Mexico moving into the top 10 in GDP by 2040. And we're significant players, you indicated earlier in the U.S. LNG export market that when you put those three GDP markets together, Mexico, Texas, and California, it's the third-largest GDP market in the world. And we have a very strong leadership position in each of those markets, and that really gives us part of our competitive advantage. These are contiguous markets with incredibly strong economic growth and we have a superior infrastructure position.

(21:49):

The only other comment I'll mention to you is, and this just goes to the Sempra mindset, is we don't really think in terms of utilities and non-utilities. I think in the 20th century, that was usually the dialogue that you had with investors. But as an example, if we're investing in an electric transmission project in Mexico, we're also building electric transmission in Texas, and we're building electric transmission in California. It really boils down to the same skill sets, the same expertise, and all of our businesses target a balanced capital structure and a similar cost of capital. So whether the revenue model is based on regulated rates of return, the underlying business fundamentals are really the same across all three growth platforms.

(22:31):

And then finally, we try to extract efficiencies across all three platforms around people, process, and technology. So the goal is to always ensure we're competing capital internally to deliver the highest returns to drive value to our owners. And I think you can see the benefits of this approach, Jowell. We've

had this conversation before, but over the last three years, we've returned \$5 billion to our owners in the form of dividends and share repurchases while also growing our earnings per share on an adjusted basis at an annual clip of roughly 10%.

Jowell Amores (23:03):

I guess that answers my follow-up question in the sense that this is very much geared towards being a long-term strategy and business model, and where we see the benefits over the short term because you've got to balance that. Now with regards to the business model, again, you've got those three platforms. And if I go back as far as when I started investing, even before Magellan, into Sempra, you had a much different business model, different company, not one that I would imagine you'd end up today. Now I think it was close to two decades ago, you had an energy trading business, and then within the last decade you also owned utility assets in South America. And so I guess my question is you've divested a lot of these businesses that while they made a lot of money, also brought on a certain amount of risk. My question to you is why did you stop with utility assets and LNG and infrastructure, pipeline assets?

Jeff Martin (24:04):

Well, I would probably say that one of the things as you described to cover our historical investment strategy is that we saw the opportunity to move away from some of the volatility that gets injected into your cash flows from commodities. And also we saw that a lot in general power generation, particularly the concern that you would have stranded investments or be disintermediated by renewables. So I think across that evolution of being Sempra Energy 25 years ago, to be in Sempra, we've really completed this transition from an integrated energy company to an energy infrastructure company. And actually, Jowell, we go to great lengths today to avoid commodity exposure. So as you mentioned, we've got a \$40 billion 5-year capital plan. In our utility investments, we target returns on equity that average approximately 10%, and we're growing rate base at roughly 9% annually. And that we expect that growth to continue.

(24:59):

And I would tell you as you follow our earnings calls, we certainly expect that that rate-based growth is more likely to go higher than 9% in the coming months and years. A rate base today in California is roughly \$45 billion. Just five years ago it was \$14 billion. So it's about a 300% increase in rate base over five years. And we have the opportunity, in my estimation, to more than double that by 2030. So that's really industry leading growth on our utility platform. And in contrast, separate infrastructure targets double-digit equity returns. And of our \$40 billion capital plan, because we're so efficient with third party investors and project level investments, it's earmarked for about 10% of our capital campaign.

(25:43):

But I think as I highlighted, what's really unique for your listening audience is by avoiding commodity exposure, including minimal exposure to power generation, our transmission and distribution business produces high quality recurring cash flows, practically bond-like with lower risk and in combination our growth platforms also benefit from strong tailwinds that I think are around energy security and obviously energy transition. And I think we've talked about this before, but the IEA is forecasted at about \$10 trillion of new investments in North America to make the energy transition take place by 2050 and over 50 cents of those dollars are expected to only be invested in expanding and modernising the grid.

(26:28):

So I will tell you today, I think our business is undervalued relative to the value of our assets. And over time, I think there's upside in our valuation. There's been plenty of private equity examples where

utilities have sold a piece of a transmission business, Jowell, at 35 or 40 times. At Sempra, we own 300,000 miles of T&D. It would extend across the United States 100 times. So being a big infrastructure owner of transmission distribution assets reduces risk to our shareholders, increases the recurring nature of our cash flows, gives us exposure to tremendous tailwinds, and I think it has the opportunity to be revalued because of scarcity. There won't be that many new transmission lines built and the incumbent owners will be the beneficiaries of majority of that future growth.

Jowell Amores (27:23):

Now, as far as looking forward, again, I'm sure with every other CEO and throughout the world, you're expected to have a crystal ball and know what the future looks like. But my question is what does shareholders have to look forward to over the next 10 to 20 years with regards to Sempra stock?

Jeff Martin (27:42):

Well, I've talked about this a little bit, and I think when you look back, and the good news is you'll hear a lot of companies like ours who are issuers of equity, they'll talk about what they're going to do in the future. And what I'm always pleased to tell people, Jowell, is I'm more than happy to tell people we're going to do what we've done in the past. So you've talked about having a 1,200% total shareholder return over 25 years, but even in the last three and five years, we've produced really solid financial results. So I think the thing to look forward to is an investment in Sempra is an investment in a management team that has tremendous rigour around operational excellence and safety, and that should be a foundational consideration for any investor.

(28:22):

And at the same time, because we're in these great economic markets, we have the chance to intensely compete capital internally for the highest hurdle rates. And over time, as long as you're maximising your operating cash flow and you're sourcing equity as cheaply as possible to finance the business, you're going to have the opportunity to out-compete and produce superior returns. So the game as always, is to maximise your results relative to your peer group. And I think we have an interesting capital structure and an interesting business model that should allow us to produce very solid results in the future.

(28:54):

I think I've made reference to it several times in today's podcast, but there's a unique set of tailwinds in the United States related to this trend toward embracing the importance of energy security and reliability, the need to make sure that there's an energy transition, which I personally think will take place in a different way regionally all around the country. It'll be different than Australia than it is in the United States. But the requirement for more capital and the value, Jowell, of scale and businesses that have the largest platforms, it will provide an incumbent advantage.

(29:28):

So I'm very bullish that we have the opportunity to more than double the rate base of our utilities by the end of the decade. I think we can experience similar growth inside of our Sempra infrastructure business. And I think I don't control central bank policy, but I think when you see this sector return to more of the last three-year mean or five-year mean average for PEs, and you think about the scarcity value of companies like ourselves that sit on top of really, really important geographic areas and have scale and transmission distribution, I think there's a chance to create a tremendous amount of value through 2030.

Jowell Amores (30:04):

That we do too. And this is a business that we think generates a significant amount of cash flow and cash flow growth at a very attractive risk-adjusted price. Now, you mentioned the utility portion of the

business, but you also have a very fast-growing Sempra infrastructure segment, much of which is represented by your LNG assets. Now, one thing we always talk about, we talk the risk averse that we look for in cash flows, and LNG being its energy tilt is always a concern for most investors, and we've seen the global energy dynamics come into effect. So when we talk about that, we're talking about the Ukraine and Russia conflict. And then to a lot of our listeners who have seen it more recently has been the disruptions you've seen in Australian LNG. Now, I guess one question I had was how does this affect your LNG business and how does it affect your ability to generate predictable and reliable cashflows?

Jeff Martin (31:13):

I think it's a really wonderful question, and it goes back to first principles about our business model. Remember, we talked about our business 20 years ago and the size of our commodity desk, we had one of the largest commodity desks in the world. And I think managing those big complex businesses in the past, Jowell, has made us better risk managers today for our investors. And the way we approach the LNG marketplace is no different than the way we approach an electric transmission line or a pipeline in the United States. And that is to make sure that we look at that value chain from where the natural gas is lifted in the basins, the transportation that's required to get it to a coastal area, and then we build the infrastructure. And our preferred model has traditionally been, we'll use Cameron LNG as an example. It's where we use a tolling model where you'll partner with an oil major who will source the natural gas upstream in the basin. They'll arrange for their transportation, and they'll bring it to my facility.

(32:09):

And our facility on one side, on the domestic side, Jowell, is a short natural gas position. And on the international side, the waterway, it's a long LNG position. And what we really want to do is put ourselves in the situation where we're going to go into that value chain and we're going to find a piece of infrastructure where we can go get 50% to 60% loan to value in project financing. We'll source equity from other partners who have a like-minded view of the investment opportunity, and we're going to try to generate that mid-double-digit equity return off that asset. We're not taking the commodity exposure. We're not taking the delivery exposure. We're not in the shipping business. Now, the folks that will bring the gas on one side and take the ships and the liquefied natural gas on the other side, they're the ones that have market access in Asia. You have market access in Europe.

(33:00):

But the great thing for you and others investors are, we're putting dollars in the United States. We're putting dollars in North America in markets that we know and understand. We're not involved in the complexities of Australia at the moment or in China or in Europe. We think there's an opportunity right here in the United States where we have really low-cost natural gas supplies for a very, very long period of time. We can build the infrastructure that unlocks new markets, that allows some of our allies to have improved economic security. They have more fuel choices to displace coal if they so want to. And here at home, it's improving our trade deficit and it's creating jobs. So it's something I think that people that understand the role of natural gas as a natural partner with renewables, the United States has a really important leadership role to play in the world, just as I would submit that Australia does, to make sure that we're providing more fuel diversity to the world so each of these regional markets can move down the energy transition pathway in a more efficient way.

Jowell Amores (34:02):

That's fantastic, Jeff, and it's been a fantastic discussion today. But before we ask you for any final remarks, I have one last question for you. What would you define to be success for this company in 10 or 20 years' time?

Jeff Martin (34:16):

Yeah. I would start by talking about something that I've been communicating to other investors recently, which is I think our industry is currently in a super cycle of growth that we expect to extend across multiple decades. And I mentioned this earlier, but the IEA expects that over \$10 trillion will be invested in North America's energy transition, and over 50 cents of every dollar will be spent on modernising and expanding the transmission distribution grid. So I think Sempra's business model is over top of the target currently. And I think when you think about our sector in this higher growth environment, it's a sector that has traditionally grown over the last 20 years at 3%, sometimes 4% EPS growth. I think in the future you're going to see it grow at 5% or 6% while companies like Sempra, Jowell, they're really positioned in the top economic markets and have this high performing culture that we've talked about, this hyper alignment around collective prioritisation, I think we should have the opportunity to grow earnings per share in the high single digits or better.

[\(35:16\)](#):

And when you put that together with today's 3.3% dividend yield, it presents a very attractive total return opportunity. And this is a key point, I don't think it's just for utility investors. I mean, Warren Buffett is fond of saying that he likes to invest in businesses that earn very good financial returns and have the opportunity to deploy a lot of capital. That's the Sempra business model. So looking across the balance of the decade, we've got a business model that's designed from the bottom up to produce growth well above our sector average, but with average or below average sector risk, and we think it's the right formula for success. Though through 2030, I think there's a high degree of confidence in the Sempra management team that we're going to create a lot of value for our owners.

Host [\(35:59\)](#):

That was Jeff Martin, the chairman and CEO of Sempra. Listen to the full episode on the Magellan website. We trust you've enjoyed this special infrastructure episode. Join us in 2024 for our new series of Magellan In The Know. For more information on previous episodes, visit magellangroup.com.au/podcast where you can also sign up to receive our regular investment insights programme. Thanks for listening.

Units in the funds referred to in this podcast are issued by Magellan Asset Management Limited ABN 31 120 593 946, AFS Licence No. 304 301 ('Magellan'). This material has been delivered to you 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 continue to hold, the relevant financial product. A copy of the relevant PDS and TMD relating to a Magellan financial product may be obtained by calling +61 2 9235 4888 or by visiting www.magellangroup.com.au.

The opinions expressed in this material are as of the date of publication and are subject to change. The information and opinions contained in this material are not guaranteed as to accuracy or completeness. Past performance is not necessarily indicative of future results and no person guarantees the future performance of any financial product or service, 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. This material may contain 'forward looking' statements and no guarantee is made that any forecasts or predictions made will materialize. 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.