Magellan Select Infrastructure (AUD Hedged)

AS AT 31 MARCH 2023

PORTFOLIO MANAGER GERALD STACK

INVESTMENT PHILOSOPHY	OBJECTIVES	PORTFOLIO CONSTRUCTION
To prudently invest in outstanding infrastructure and utilities companies at attractive prices that exhibit highly predictable cashflows.	To achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.	Concentrated 20-40 stock portfolio applying MFG Asset Management's proprietary infrastructure classification. Valuation driven benchmark-unaware strategy. Highly defensive, inflation-linked exposure.

MAGELLAN SELECT INFRASTRUCTURE (AUD HEDGED)

TOTAL STRATEGY ASSETS	TOTAL INFRASTRUCTURE ASSETS[1]	INCEPTION DATE
AUD $8,736.5 million	AUD $16,530.0 million	01 July 2007

AUD PERFORMANCE[2]

	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)	OUTPERFORMANCE CONSISTENCY[3]
Composite (Gross)	3.4	-4.5	8.1	6.1	9.9	8.4	92%
Composite (Net)	3.2	-5.2	7.2	5.2	9.1	7.5	89%
Global Infrastructure Benchmark[4]	3.2	-2.5	13.3	5.4	7.2	5.3	
Excess (Gross)	0.2	-2.0	-5.2	0.7	2.7	3.1	
MSCI World NTR Index (A$ Hedged)[+]	7.1	-7.4	15.1	7.6	10.0	6.8	

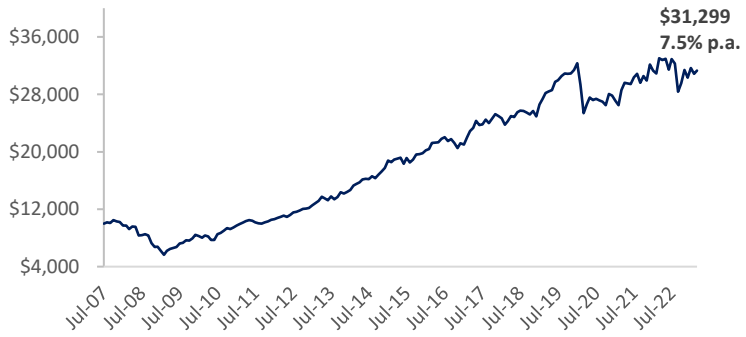
CALENDAR YEAR RETURNS[2]	CYTD (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)
Composite (Gross)	3.4	-5.0	16.6	-10.7	26.8	0.6	18.9	7.8	12.6	24.0	19.1	16.8	12.4	13.0
Composite (Net)	3.2	-5.8	15.7	-11.4	25.8	-0.2	18.0	7.0	11.7	23.0	18.2	15.9	11.5	12.1
Global Infrastructure Benchmark[4]	3.2	1.3	13.7	-11.9	25.3	-6.7	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7
Excess (Gross)	0.2	-6.3	2.9	1.2	1.5	7.3	4.5	-6.3	18.0	1.1	0.6	7.7	7.7	7.3
MSCI World NTR Index (A$ Hedged)[+]	7.1	-17.7	23.7	10.3	26.7	-7.4	19.8	10.4	3.8	12.3	31.8	18.8	-2.3	12.6

Past performance does not predict future returns.

AUD 5 YEAR RISK MEASURES[5]

	Against Global Equities	Against Global Infrastructure Benchmark[4]
Upside Capture	0.7	0.9
Downside Capture	0.6	0.8
Beta	0.7	0.8
Correlation	0.8	0.9

PERFORMANCE CHART GROWTH OF AUD $10,000 (NET)[2]



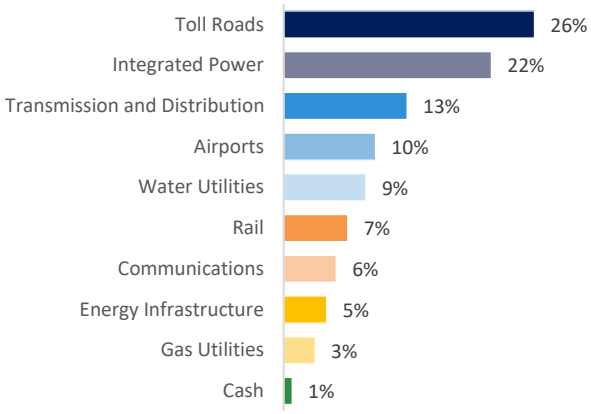
Past performance does not predict future returns.

[1] Comprised of all Select Infrastructure strategies.
[2] Returns are for the Global Select Infrastructure Hedged to AUD Composite and denoted in AUD. Performance would vary if returns were denominated in a currency other than AUD. Refer to the GIPS Disclosure section below for further information. Strategy inception is 01 July 2007. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fees are available upon request.
[3] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.
[4] The Benchmark or Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index $A Hedged Net Total Return and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure Index $A Hedged Net Total Return. Note: the UBS Developed Infrastructure and Utilities Index $A Hedged Net Total Return ceased to be published from 31 May 2015, replaced on 1 January 2015 with the S&P Global Infrastructure Index $A Hedged Net Total Return
[5] Risk measures are for the Global Select Infrastructure Hedged to AUD Composite calculated before fees in AUD. The Global Equities Index is the MSCI World NTR Index (A$ Hedged)[+].
[+] All MSCI data used is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI and its affiliates assume no liability for or in connection with the data. Please see complete disclaimer in www.magellangroup.com.au/funds/benchmark-information/

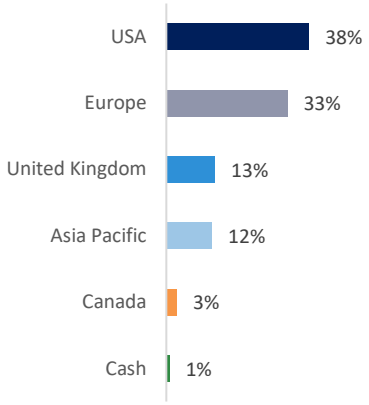
TOP 10 HOLDINGS[6]

STOCK	SECTOR	%
Transurban Group	Toll Roads	7.7
Vinci SA	Toll Roads	7.6
National Grid Plc	Transmission and Distribution	5.8
Aena SME SA	Airports	5.6
Ferrovial SA	Toll Roads	5.5
United Utilities Group Plc	Water Utilities	4.7
Sempra Energy	Integrated Power	4.5
Atlas Arteria	Toll Roads	4.0
Norfolk Southern Corporation	Rail	3.8
Evergy Inc	Integrated Power	3.6
	TOTAL:	52.8

SECTOR EXPOSURE[6]



GEOGRAPHICAL EXPOSURE[6]



[6] The data is based on a representative portfolio for the strategy. Refer to the GIPS Disclosure below for further information. Sectors are internally defined. Geographical exposure is by domicile of listing. Exposures may not sum to 100% due to rounding.

Strategy Commentary

The strategy recorded a positive return in the March quarter as inflation and 10-year bond rates pulled back on recession concerns. The stocks that contributed the most were Spanish airport operator Aena, French toll road and airport group Vinci and Australian toll road company Transurban. Aena jumped as its traffic levels exceeded 2019 levels and as 2022 earnings and 2023 guidance exceeded consensus. Vinci's share price lifted as earnings came in ahead of consensus and as airport passenger traffic continued to rebound across its portfolio. Transurban rose as its second quarter traffic in two of its key markets, Sydney and Brisbane, exceeded 2019 levels.

The stocks that detracted the most were the investments in US rail company Norfolk Southern, US utilities Dominion Energy and Eversource Energy. Norfolk Southern fell on increased social licence risk after a train derailment made international news. Dominion fell as they failed to provide any further detail on their restructuring plans at their annual results presentation (despite the result being in line). Eversource fell as its JV partner for its offshore Sunrise wind project took an impairment and as the New England regulator launched an investigation into bill increases.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.

Outlook

Notwithstanding our expectations for greater volatility in the short to medium term driven by inflation and interest rates, we are confident that the underlying businesses we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices in the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We consider the strategy can provide investors with returns that exceed inflation over the longer term. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, we believe the resilient nature of earnings and the structural linkage of those earnings to inflation means that investment returns typically generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In our view, the current uncertain economic and investment climate, and the historically reliable financial performance of infrastructure investments makes them attractive, and an investment in listed infrastructure has the potential to reward patient investors with a long-term time frame.

Stock Story

(Ben McVicar- Portfolio Manager)

ferrovial

In the US and Canada, despite these countries being viewed as bastions of free enterprise, private ownership of toll roads and airports is uncommon, notwithstanding long-held investor expectations that the market would follow trends seen in other places like Europe or Australia. For investors this has left these markets as outliers for the size of their economies, and with limited opportunity for private investment in these key transport assets. Despite the constraints, one company that has developed a foothold in this market is Ferrovial.

Ferrovial is a multinational company that focuses on toll roads and airports, as well as having construction and services businesses. Within the infrastructure part of the business, its North American toll roads represent the most important part of its operation with assets like its flagship investment in the 407 ETR in Toronto, as well as its managed lanes in the United States; and airports, with investments in major hub airports like Heathrow in London and JFK in New York.

The 407 ETR in Canada is arguably one of the most attractive toll road concessions in the market, where Ferrovial holds a 43.23% stake in the asset. The road provides a route across Toronto to the north of the city with the main competing route being the 401 highway, which is often regarded as the busiest road in North America and suffers from major congestion issues. In addition, the 407 ETR operates under a long-term contract that extends to 2098, and toll price increases that have few restrictions – with no specific cap on toll prices so long as traffic remains above specified levels. The pricing flexibility is key and stands in contrast to many toll roads that have more restrictive pricing clauses embedded in their contracts. We believe traffic conditions should remain favourable given positive migration dynamics, a solid economic outlook, and its role as a transit route across the high-population areas of Toronto, which has Lake Ontario to the southern side limiting the ability for an effective competing route to be built. This ongoing traffic growth across the city provides not only a growing market, but with the major congestion on the competing 401 Highway, our view is this should also drive more cars onto the 407 ETR.

The 407 ETR is a key investment attraction within Ferrovial; however, the company has been growing its business throughout the United States by developing its high-occupancy toll lanes ("HOT" lanes) or managed lanes. The distinguishing feature of these HOT lanes is they operate using dynamic pricing. This means that to guarantee and maintain a minimum average speed, the tolls are automatically adjusted higher as the speed of vehicles drops towards the minimum threshold. Users are charged based on their marginal willingness to pay, rather than a cap set by the concession grantor. While this can lead to high tolls at certain periods, some feedback suggests customer satisfaction is higher when tolls are higher, as it means the competing free road is heavily congested and therefore the time savings are even greater.

The company operates a portfolio of these managed lanes including key assets in the fast-growing region of Dallas-Fort-Worth, Texas; Charlotte, North Carolina; and in a highly congested yet affluent area of Virginia that serves traffic heading to Washington D.C. Further, the company has flagged ongoing potential opportunity for new developments in Georgia where the company has submitted bids for a prospective managed lane project. We believe that the success of Ferrovial's HOT lanes and its innovative, world-leading dynamic pricing model demonstrates the company's strong IP and competitive advantage.

Ferrovial's primary airport holding is a 25% stake in Heathrow. Heathrow operates under a "single till" model meaning the entire operation is subject to price regulation. This model is less attractive than a "dual till" model that allows for the separation of the regulated aeronautical business from commercial operations (such as retail or property developments). However, the single till model does provide strong inflation protection. In addition to some smaller holdings in the airport sector, the company is also undertaking a major project in New York, with the development of a new JFK International Terminal 1 called New Terminal One (NTO), which is expected to see Ferrovial invest US$1.1 BN to develop a new 38-year concession that will see NTO take over from Terminals 1, 2 and 3.

Ferrovial also operates a construction business. While we do not view this business as particularly advantaged or attractive, the size of the business is minor in the context of Ferrovial and we consider it an acceptable risk to gain access to such high-quality toll road assets, particularly the 407 ETR and US-managed HOT lanes.

While Ferrovial is currently based in Spain, given its ongoing strategy to grow and develop its US business, the company is undertaking a process intended to see it ultimately become dual listed in the US, enhancing liquidity and access to capital that should allow it to continue to capitalise on its world-leading position that it has established in this market.

IMPORTANT INFORMATION

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The Global Infrastructure Benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index Net Total Return and from 1 January 2015 the benchmark is S&P Global Infrastructure Net Total Return Index. The benchmark changed because UBS discontinued their index series.

The UBS Developed Infrastructure & Utilities Index Net Total Return is a market capitalisation weighted index that is designed to measure the equity performance of listed Infrastructure and Utility stocks. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The S&P Global Infrastructure Net Total Return Index is a market capitalisation weighted index that is designed to track 75 companies from around the world diversified across three infrastructure sectors energy, transportation and utilities. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

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The Global Select Infrastructure Hedged in AUD composite is a concentrated global strategy investing in strictly defined or "pure" infrastructure companies, (typically 20-40). The filtered investment universe is comprised of stocks that 1. generate reliable income streams 2. benefit from inflation protection and 3. have an appropriate capital structure. The investment objective of the strategy is to minimise the risk of permanent capital loss; and achieve superior risk adjusted investment returns over the medium to long-term. The portfolios are hedged to Australian dollars with Forward contracts. The composite was created in December 2011.

To achieve investment objectives, the composite may also use derivative financial instruments including, but not limited to, options, swaps, futures and forwards. Derivatives are subject to the risk of changes in the market price of the underlying securities instruments, and the risk of the loss due to changes in interest rates. The use of certain derivatives may have a leveraging effect, which may increase the volatility of the composite and may reduce its returns.
A copy of the composite's GIPS compliant presentation and/or the firm's list of composite descriptions are available upon request by emailing client.reporting@magellangroup. com.au

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The representative portfolio is an account in the composite that closely reflects the portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio may differ from those of the composite and of the other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite is available upon request.
AUD is the currency used to calculate performance.