

Fund Update: 30 September 2020

Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)

ARSN: 612 467 580

Ticker: MICH

Fund Facts

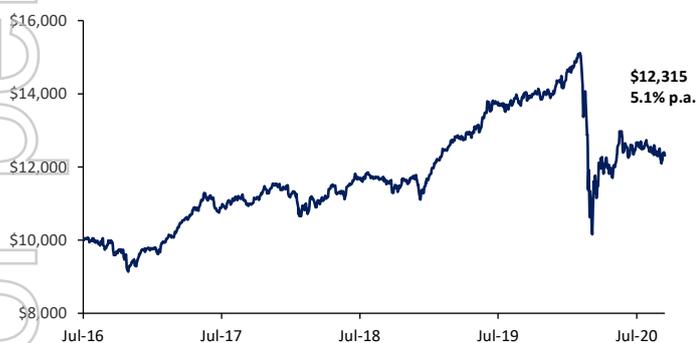
Portfolio Manager	Gerald Stack		
Structure	ASX-quoted Global Infrastructure Fund		
Inception Date	19 July 2016		
Management Fee ¹	1.05%		
Fund Size	AUD \$658.9 million		
Distribution Frequency	Six Monthly		
Performance Fee ¹	10% of the excess return of the units of the Fund above the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A\$ Hedged 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.		
iNAV tickers	Bloomberg Thomson Reuters IRESS	MICH AU Equity MICH.AX MICH.AXW	MICHIV Index MICHAUiv.P MICHINAV.ETF

¹All fees are inclusive of the net effect of GST

Fund Features

- ASX quoted version of Magellan Infrastructure Fund
- Fund is actively managed
- Minimum administration for investors; no paperwork needed to trade
- Units can be bought or sold on the ASX like any other listed security
- Efficient and live pricing
- Provision of liquidity by the Fund
- Settlement via CHESS
- Magellan has significant investment alongside unit holders

Performance Chart growth of AUD \$10,000*



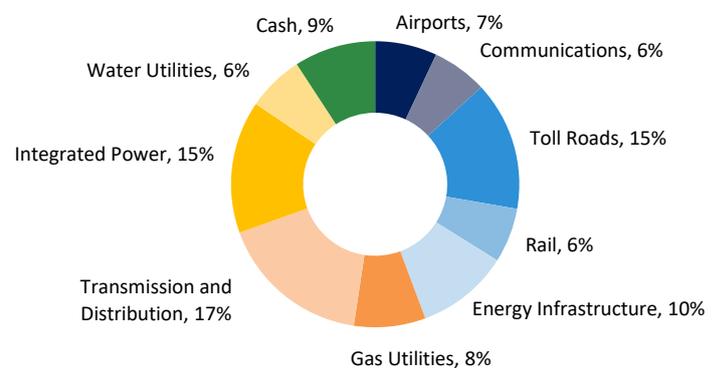
Fund Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-0.7	-1.8	1.1
3 Months	-0.8	-0.6	-0.2
6 Months	6.4	10.0	-3.6
1 Year	-12.3	-18.6	6.3
3 Years (% p.a.)	3.9	-2.1	6.0
4 Years (% p.a.)	5.4	1.1	4.3
Since Inception (% p.a.)	5.1	1.3	3.8

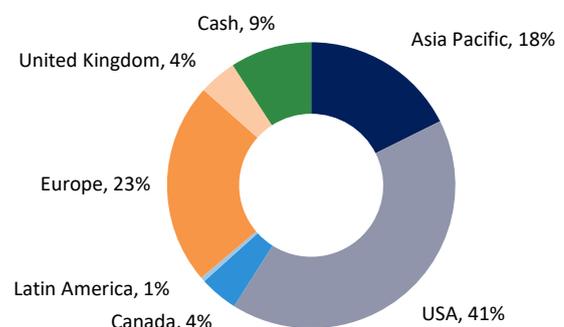
Top 10 Holdings

	Sector [#]	%
Transurban Group	Toll Roads	6.3
Atmos Energy Corporation	Gas Utilities	5.5
Red Electrica Corporacion	Transmission and Distribution	5.0
Eversource Energy	Transmission and Distribution	4.6
Sempra Energy	Integrated Power	4.5
Vopak NV	Energy Infrastructure	4.4
Enbridge Inc	Energy Infrastructure	4.3
Crown Castle International	Communications	4.2
Xcel Energy Inc	Integrated Power	4.0
American Water Works	Water Utilities	3.9
TOTAL:		46.7

Sector Exposure[#]



Geographical Exposure[#]


[#] Sectors are internally defined. Geographical exposures are by domicile of listing. Cash exposure includes profit/loss on currency hedging. Exposures may not sum to 100% due to rounding.

* Calculations are based on the monthly ASX released net asset value with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Fund Inception 19 July 2016.

** The index is the S&P Global Infrastructure Net Total Return Index (\$A Hedged)

Fund Commentary

The portfolio recorded a negative return for the quarter. Stocks that detracted included the investments in FirstEnergy of the US, Vinci of France and Atlas Arteria of Australia. FirstEnergy plunged after the US Attorney's Office of Ohio charged House Speaker Larry Householder and five others with bribery and money-laundering charges tied to a bill that effectively was a US\$1.5 billion bailout of a former subsidiary of FirstEnergy's nuclear plants in the US state. Vinci dived after the economic blow associated with the pandemic reduced the first-half revenue of the concessions and construction company by 15%. Atlas Arteria fell over the quarter as surging infection rates in France, the location of its largest asset, led to concerns regarding greater mobility restrictions.

Stocks that contributed the most included the investments in Xcel Energy of the US, American Water Works and CSX and Union Pacific, two North American railroad companies. Xcel Energy rose after the monopoly provider of electricity and gas services across eight mid-western US states announced a higher-than-expected jump of 18% in earnings-per-share growth for the second quarter and management reiterated its 2020 and long-term earnings guidance. American Water Works, the largest listed water utility in the US, rose as investors appeared to continue to favour its low-risk business model. CSX and Union Pacific, which are regarded as bellwethers of economic activity in North America, rose as US states relaxed pandemic-related restrictions.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Stock Story: Spark Infrastructure



About 15 gigawatts or 63% of Australia's coal-fired power generation will reach the end of its technical life and is likely to be retired by 2040, according to Australian Energy Market Operator, the body that oversees the country's energy markets. Replacing this much coal-fired generation will require more than twice the volume of renewable generation capacity, given the vagaries of renewables. The replacement of the existing coal-fired fleet with renewables will require meaningful investment in transmission networks, as the existing network has an estimated connection capacity of only 13 gigawatts when it comes to renewable resources.

Across about A\$13 billion worth of likely renewables projects sits TransGrid, the monopoly operator of the biggest transmission network by volume in Australia's National Electricity Market. TransGrid delivers power to more than 3.6 million homes and businesses within NSW and the Australian Capital Territory. TransGrid is 15% owned by Spark, an ASX-listed investment fund that owns four major energy assets, of which TransGrid has by far the best growth prospects.

SA Power Networks is the only operator of South Australia's distribution network. The utility distributes power to about 887,000 residential and business customers across the state. SA Power is 49% owned by Spark.

CitiPower and Powercor form Victoria Power Networks, which distributes power to about 330,000 customers in Melbourne and another 810,000 clients in the central and western parts of the state. Victoria Power is 49% owned by Spark. Spark's other, lesser, asset is the 2019-purchased and newly built Bomen Solar Farm that will produce enough renewable energy to power 36,000 homes a year.

These four assets that service about five million clients worth about A\$18 billion form the core, or perhaps springboard, of Spark's 'growth plus yield' strategy. To comprehend the basis for this strategy, it can help to understand that the core business model of utilities is that they own 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 while earning a return on its asset base, a term for the amount of capital on which regulators can earn a regulated return.

The yield part of Spark's strategy is that its share of its Victorian and South Australian distribution assets and its stake in TransGrid give Spark an effective regulated asset base of A\$6.6 billion. In (fiscal) 2019, the regulated return comprised 86% of Spark's revenue of A\$1.2 billion, an increase of 3.3% from 2018.

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The growth part of Spark's strategy is about investing more to increase the asset base of its three regulated assets and investing in renewable energy, which often falls outside of the regulated sphere. The NSW government, for example, forecasts A\$8 billion worth of investment will be needed over the coming decade to power the state, divided between regulated and unregulated assets. TransGrid, for example, is considering a joint bid to build a 900-kilometre interconnector between Wagga Wagga and Robertson in South Australia that will enable more renewable energy to be injected into the national grid. This is just one of the plans that could see TransGrid's regulated asset base double in the next decade.

Another leg of Spark's strategy is to enhance the assets it owns; that is to say, make them more efficient so it has more capital to grow its business, something it does well. (Spark calls this its 'value enhance, value build and value acquire' strategy.)

Spark's portfolio of regulated and renewable assets and their potential to expand has helped the company be one of the most resilient stocks over 2020. Many people have seen that Spark offers what investors generally seek when they invest in essential services: growth plus income.

To be sure, Spark faces the challenge of all the regulatory and political uncertainty that surrounds Australia's energy market. Regulators are trimming some of its regulated returns. Spark's plan to invest in solar, wind and storage projects in coming years come with the risk that management might make poor investments.

Even allowing for these risks, though, Spark is likely to deliver on its growth plus yield strategy in the coming years as solar panels, wind farms and other renewable sources of energy become a more important source of power for Australia.

Sources: Company filings.

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