Strategy Update: 31 December 2022

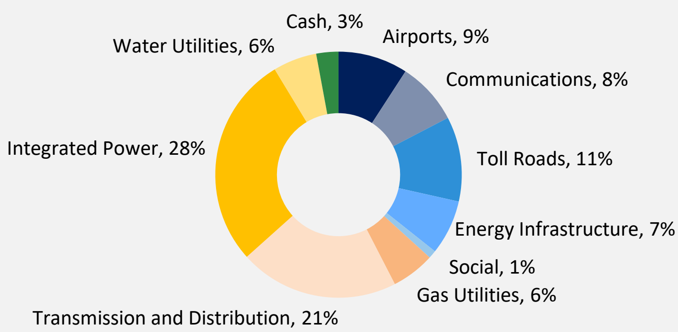
MFG Global Core Infrastructure (USD)

Portfolio Manager	Strategy Inception Date	Total Strategy Assets	Total Infrastructure Assets[1]
Gerald Stack	18 January 2012	USD $5,099.5 million	USD $11,021.3 million

Objective	Approach
Capital preservation in adverse markets	Diversified rules-based portfolio applying our proprietary infrastructure classification
Pre-fee return of CPI plus 5%p.a. through the economic cycle	Highly defensive, inflation-linked exposure
	Benchmark unaware

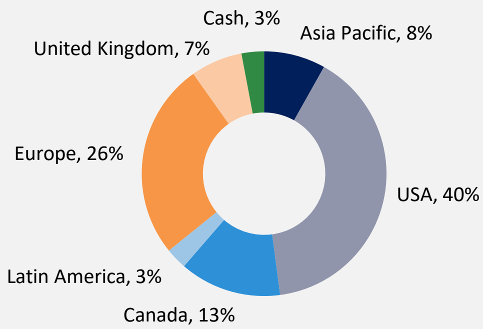
Top 10 Holdings[2]	Sector[2]	%
Vinci SA	Toll Roads	3.0
National Grid Plc	Transmission and Distribution	3.0
Cellnex Telecom SA	Communications	3.0
Enbridge Inc	Energy Infrastructure	2.9
Transurban Group	Toll Roads	2.8
Ferrovial SA	Toll Roads	2.7
Fortis Inc	Transmission and Distribution	2.7
Aena SME SA	Airports	2.6
TC Energy Corporation	Energy Infrastructure	2.6
Snam SpA	Gas Utilities	2.3
	TOTAL:	27.6

Sector Exposure[2]



USD 5 Year Risk Measures[3]	Against Global Equities	Against Infrastructure Benchmark[4]
Upside Capture	0.6	0.9
Downside Capture	0.6	0.8
Beta	0.7	0.8
Correlation	0.8	0.9

Geographical Exposure[2]



3 Year rolling returns[4] (measured monthly)	1 Year	3 Years	5 Years	Since Inception
Against Global Infrastructure Benchmark[5]				
No. of observations	12	36	60	97
Average excess return (% p.a.) (Gross)	2.0	4.1	3.4	3.8
Average excess return (% p.a.) (Net)	1.5	3.5	2.7	3.1
Outperformance consistency (Gross)	100%	100%	95%	97%
Outperformance consistency (Net)	83%	94%	88%	93%

Performance[6]	3 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	10 Years (% p.a.)	Since Inception (% p.a.)
Composite (Gross)	10.1	-7.5	1.4	4.8	8.2	8.9
Composite (Net)	10.0	-8.0	0.9	4.2	7.5	8.3
Global Infrastructure Benchmark	10.8	-1.0	0.9	3.0	5.8	6.0
Excess (Gross)	-0.7	-6.5	0.5	1.8	2.4	2.9
MSCI World NTR Index+	9.8	-18.1	4.9	6.1	8.9	9.3

Annual Performance[6] (%)	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012*
Composite (Gross)	-7.5	14.4	-1.3	29.0	-6.1	21.2	7.2	-0.1	17.4	14.0	16.4
Composite (Net)	-8.0	13.8	-1.8	28.2	-6.7	20.4	6.5	-0.8	16.6	13.2	15.6
Global Infrastructure Benchmark	-1.0	11.0	-6.5	25.8	-10.4	19.1	11.4	-12.2	14.1	14.4	7.0
Excess (Gross)	-6.5	3.4	5.2	3.2	4.3	2.1	-4.2	12.1	3.3	-0.4	9.4
MSCI World NTR Index+	-18.1	21.8	15.9	27.7	-8.7	22.4	7.5	-0.9	4.9	26.7	13.0

Strategy Commentary

The portfolio recorded a positive return in the December 2022 quarter as the pace of inflation slowed and subsequent interest rate concerns eased for equity investors.

Key stock contributors over the three-month period included Vinci SA, National Grid and Terna SpA. Shares of French toll road company, Vinci SA, rose following reports of better-than-expected performance across key business lines (Concessions and Contracting) that subsequently led to a more optimistic tone from management. National Grid, a UK-based electricity and gas utility, gained as the company issued strong 1H23 results and an upgrade to its 5-year growth guidance. Shares of Italian electricity transmission company, Terna, lifted after positive interim earnings results as well as an upgrade to FY2022 earnings guidance.

Stocks that detracted most during the December 2022 quarter were investments in Algonquin Power & Utilities, Emera, and Dominion Energy. Shares of Canadian-based utility, Algonquin Power & Utilities Corp, declined after publishing disappointing interim results during the period, obliging it to withdraw long-term growth objectives. Emera, a Canadian-domiciled utility, fell on the back of proposed Provincial legislation seeking to limit rate increases to 1.8% per annum through 2024. Meanwhile, US-domiciled electricity and gas utility Dominion Energy fell as the company abandoned their previous guidance as part of a full strategic review of the business.

Stock contributors/detractors are based in local currency terms.

Stock Story: Transurban

While the economic storm of the global financial crisis (GFC) raged in 2008/2009, Transurban's portfolio of Australian toll roads continued to grow traffic volumes or had very muted declines. While it is easy to say Australia was far less affected by the GFC than the rest of the world, the resilience of urban toll roads (where traffic was far less impacted than many other forms of transport infrastructure) was repeated time and again across the globe, even in some of the more affected countries such as Portugal.

Today's storm is of a different making – inflation and interest rates have ravaged markets while recession looms. However, it is the nature of urban toll roads and, by extension, the world's largest urban toll road company, Transurban, that places them in one of the strongest positions as:

- Traffic volumes exhibit little economic sensitivity;
- Tolls are largely inflation linked; and
- Debt costs are predominantly fixed in the short to medium term.

From an underlying traffic point of view, one of the reasons urban toll roads are so resilient is because of the variety of trip types they are used for. Contrary to common belief, prior to the pandemic a Transurban survey in Australia showed only 16% of respondents nominated commuting as the main reason they use toll roads. Urban toll roads allow people to move more easily around the cities they live in and hence traffic on these roads is usually more resilient to an economic downturn.

While today's drivers are different, there are echoes of 2008 in where we stand today. In 2008, inflation in Australia was accelerating on the back of high energy prices (Brent Crude topped US$143 bbl in 2008) and rates were rising until the subprime crisis sent a chill through financial markets.

Today oil prices, inflation and rates are all elevated compared to recent history. However, we believe that Transurban is well placed to benefit from the inflation spike – 68% of its revenue has a direct passthrough of inflation with a further 4% being dynamic pricing (which captures inflation indirectly) – yet its costs are not increasing at the same rate. Most obviously, Transurban's debt is largely fixed and the average debt tenor is seven years, with only around 11% of total proportional drawn debt to be refinanced in the next two years. This means Transurban is getting the benefit of the increased toll from the inflation spike through to the end of its concessions but is likely to pay only a limited amount more in financing costs if the central banks are successful in bringing inflation, and hence interest rates, back under control.

Some investors suggest that the company is not attractive because the yield is now similar to the Australian 10-year bond yield. While we appreciate yield is important for some investors, it should be remembered that yield is one component of shareholder return. At its simplest level, consensus estimates for FY2023 and FY2024 EBITDA growth are more than 10% p.a. With 98% of debt on a fixed interest rate over this period and with an average debt tenor of 7 years, we expect this to translate into even higher cash flow in the short to medium term. Even without this benefit, at a base level, if you assume that the yield remains stable at ≈3.8% and underlying cash flow is growing at > 10%, all else equal we expect that the total return from an investment in Transurban shares should be approximately 13.8%.

One thing investors often forget about Transurban is the significant option value inherent in the portfolio of assets that it has. For example, the existing portfolio of assets operated by Transurban includes several expansionary projects such as the widening of the M7 motorway in Sydney (project approval was announced in late December), the Gateway and Logan motorways in Brisbane, and bidirectional tolling on the I-95 and extension of the I-495 in Virginia, USA amongst others. Incumbency should also provide Transurban with a significant advantage in bidding for new projects in existing markets through scale and informational advantage and should afford it a privileged opportunity to craft solutions for government partners that are also accretive to shareholders, such as a toll increase on the M7 to partly fund NorthConnex.

To paraphrase Benjamin Graham, in the short term the market is a voting machine, in the long term it is a cash flow weighing machine. We believe that consistent growth leading to an ever-expanding weight of underlying cash flows will ultimately be reflected in the stock price.

[1] Comprised of all Infrastructure Strategies.
[2] 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.
[3] Risk measures are for the Global Core Infrastructure Composite before fees. The Global Equities Index is the MSCI World NTR Index+.
[4] Rolling 3-year returns are calculated in USD and rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with outperformance consistency indicating the percentage of positive excess returns. Strategy inception is 18 January 2012.
[5] The Benchmark or Global Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities NTR Index and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index. Note: the UBS Developed Infrastructure and Utilities NTR Index ceased to be published from 31 May 2015, replaced on 1 January 2015 with the S&P Global Infrastructure NTR Index.
[6] Returns are for the Global Core Infrastructure Composite and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Strategy inception is 18 January 2012. Refer to the GIPS Disclosure section below for further information. 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.
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* Returns are only for part year.

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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 Net Total Return Index 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 Net Total Return Index 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.

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The Global Core Infrastructure composite is a global strategy investing in strictly defined or "pure" infrastructure companies (typically 80-100). The filtered investment universe is comprised of stocks that 1. generate reliable income streams, 2. benefit from inflation protection and 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 composite was created in February 2012.

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

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.

USD is the currency used to calculate performance.