MFG ASSET MANAGEMENT

Strategy Update: 30 September 2021

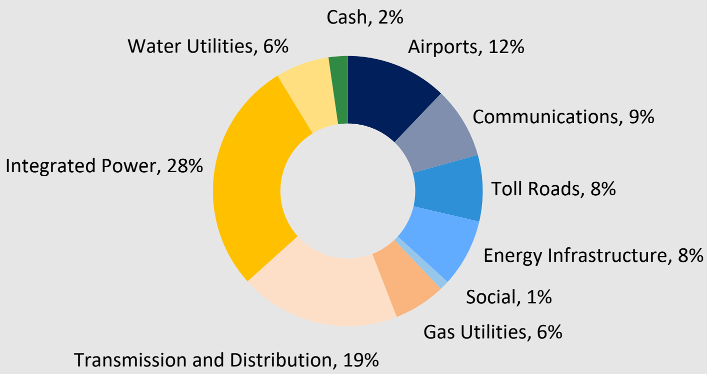
# MFG Global Core Infrastructure (USD)

| Portfolio Manager | Strategy Inception Date | Total Strategy Assets | Total Infrastructure Assets[1] |
|---|---|---|---|
| Gerald Stack | 18 January 2012 | USD $6,904.8 million | USD $14,202.3 million |

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

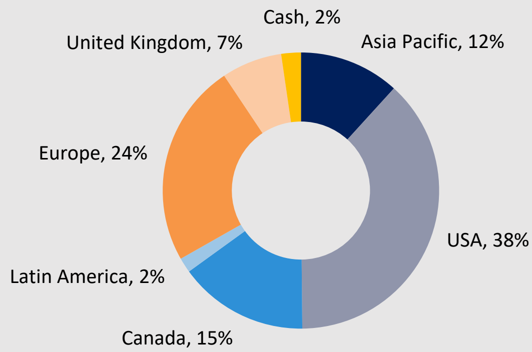
| Top 10 Holdings[2] | Sector[2] | % |
|---|---|---|
| Aena SME SA | Airports | 3.4 |
| TC Energy Corporation | Energy Infrastructure | 3.2 |
| Enbridge Inc | Energy Infrastructure | 3.2 |
| Vinci SA | Toll Roads | 3.1 |
| Transurban Group | Toll Roads | 3.1 |
| Fortis Inc | Transmission and Distribution | 3.0 |
| National Grid PLC | Transmission and Distribution | 2.9 |
| Cellnex Telecom SA | Communications | 2.8 |
| Snam SpA | Gas Utilities | 2.7 |
| Sydney Airports | Airports | 2.2 |
| | TOTAL: | 29.6 |

## Sector Exposure[2]




| USD 5 Year Risk Measures[3] | Against MSCI World NTR Index | Against Infrastructure Benchmark[4] |
|---|---|---|
| Upside Capture | 0.5 | 1.0 |
| Downside Capture | 0.5 | 0.8 |
| Beta | 0.6 | 0.7 |
| Correlation | 0.7 | 0.9 |

## Geographical Exposure[2]




| 3 Year rolling returns[5] (measured monthly) | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|
| **Against the Infrastructure Benchmark[4]** | | | | |
| No. of observations | 12 | 36 | 60 | 82 |
| Average excess return (% p.a.) (Gross) | 4.7% | 3.8% | 3.9% | 4.1% |
| Average excess return (% p.a.) (Net) | 4.1% | 3.1% | 3.2% | 3.3% |
| Outperformance consistency (Gross) | 100% | 92% | 95% | 96% |
| Outperformance consistency (Net) | 100% | 86% | 92% | 94% |

| Performance[6] | 3 Months (%) | 1 Year (%) | 3 Years (% p.a.) | 5 Years (% p.a.) | 7 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|---|---|
| Composite (Gross) | 0.2 | 13.5 | 9.7 | 7.9 | 8.3 | 10.2 |
| Composite (Net) | 0.1 | 13.0 | 9.1 | 7.2 | 7.6 | 9.5 |
| Global Infrastructure Benchmark | 1.3 | 22.1 | 5.8 | 5.0 | 4.4 | 6.4 |
| Excess (Gross) | -1.1 | -8.6 | 3.9 | 2.9 | 3.9 | 3.8 |
| MSCI World NTR Index | 0.0 | 28.8 | 13.1 | 13.7 | 10.5 | 12.0 |

| Annual Performance[6] (%) | CYTD | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012* |
|---|---|---|---|---|---|---|---|---|---|---|
| Composite (Gross) | 6.4 | -1.3 | 29.0 | -6.1 | 21.2 | 7.2 | -0.1 | 17.4 | 14.0 | 16.4 |
| Composite (Net) | 6.0 | -1.8 | 28.2 | -6.7 | 20.4 | 6.5 | -0.8 | 16.6 | 13.2 | 15.6 |
| Global Infrastructure Benchmark | 6.3 | -6.5 | 25.8 | -10.4 | 19.1 | 11.4 | -12.2 | 14.1 | 14.4 | 7.0 |
| Excess (Gross) | 0.1 | 5.2 | 3.2 | 4.3 | 2.1 | -4.2 | 12.1 | 3.3 | -0.4 | 9.4 |
| MSCI World NTR Index | 13.0 | 15.9 | 27.7 | -8.7 | 22.4 | 7.5 | -0.9 | 4.9 | 26.7 | 13.0 |

[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 Equity Index is the MSCI World NTR Index.
[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 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.
[5] 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.
[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.
* Returns are only for part year.



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.

**GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE**

Magellan Asset Management Limited, doing business as MFG Asset Management in jurisdictions outside Australia and New Zealand, (MFG Asset Management) claims compliance with the Global Investment Performance Standards (GIPS ®)

For the purpose of complying with GIPS, the Firm is defined as all discretionary portfolios managed by MFG Asset Management, excluding brands managed by subsidiaries operating as distinct business entities. MFG Asset Management is a wholly-owned subsidiary of the publicly listed company Magellan Financial Group Limited. MFG Asset Management is based in Sydney, Australia. Total Firm assets is defined as all assets managed by MFG Asset Management, excluding assets managed by subsidiaries operating as distinct business entities.

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.

## Strategy Commentary

The strategy recorded a positive return in the September quarter. Stocks that contributed the most included the investments in Sydney Airport, AusNet Services and Aena of Spain. Sydney Airport surged following a A$24 billion takeover offer from a consortium led by the infrastructure manager IFM. AusNet soared on news that Canadian asset manager, Brookfield Asset Management, and Australian gas-pipeline operator, APA Group, were engaged in a battle to acquire the owner of Victoria's transmission grid. Aena, the world's largest airport operator, gained as countries relaxed pandemic restrictions that inhibit travel.

The stocks that detracted the most were the investments in Crown Castle International of the US, National Grid of the UK and Royal Vopak of the Netherlands. Crown Castle, a US-based owner of telecom towers, fell due to increasing concerns around inflation. National Grid slid as the yield on 10-year UK gilts spiked to their highest level in more than two years, prompted by concerns that rapidly rising wholesale gas prices would give rise to higher inflation expectations. National Grid's relatively benign systematic risk profile and long duration render it particularly sensitive to movements in interest rates. Vopak slid after the storage operator's first-half earnings report disappointed.

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

## Stock Story: Xcel Energy

Xcel Energy is a US electricity and gas utility that is leading the transition towards clean energy. The utility that earned US$11.5 billion in revenue from servicing 3.7 million electricity and 2.1 million gas customers across eight mid-western US states has declared it will provide 100% carbon-free electricity by 2050, making it the first large US utility to declare such an intention.

While that might seem so far off as to be meaningless, by the end of 2020 about 47% of the energy Xcel Energy produced already came from carbon-free sources.

Such progress means Xcel Energy has reduced carbon emissions by 51% since 2005 and the company intends that percentage to reach 80% by 2030. To get there, Xcel Energy will retire its coal-fired plants, preserve its nuclear assets, maintain natural gas as a backup and build large renewable projects. As the company operates in a windy part of the US (across Colorado, Minnesota where it is based, New Mexico, North Dakota, Michigan, South Dakota, Texas, and Wisconsin), the renewable focus is wind farms.

To understand why Xcel Energy’s drive to a cleaner future is of interest to investors it helps to understand the regulatory environment that governs utilities. The quid pro quo under the regulatory regime is that utilities are granted the monopoly right to provide their services to a defined territory in exchange for having the return on capital spending capped. The easiest way, therefore, for a utility to increase earnings is to spend more on capital works, so long as they ensure that prices stay affordable for customers. Basically, Xcel Energy is a promising investment because regulators approve capital spending that alleviates any damage from climate change.

Xcel Energy’s spending plans can be split into two categories, where its investments in renewable technologies is one. The company is pivoting to wind farms because the cost of electricity generated by these assets has declined by almost 70% on average over the past decade. Because the wind is free, the company is well placed to grow shareholder returns without increasing bills for customers as it spends more than US$3.6 billion building wind farms over the next five years.

The other category is unrelated to climate change but is vital for Xcel Energy to provide its essential services. The company needs to replace ageing transmission and distribution infrastructure, especially power lines, to ensure the electrical grid functions properly. Nearly 25% of the company’s 32,000 kilometres of transmission lines have exceeded their useful lives and close to another 20% will need replacing over the next decade. Xcel Energy is likely to spend more than US$10 billion over the next 15 years on new lines.

The company’s approved capital spending over the coming decade means that investors can be confident the utility will achieve its long-term earnings growth objective of 5% to 7%, as it has in recent years while keeping customer bills low.

*Sources: Company website, 2020 annual report.*

## Stock Story: SBA Communications

US-based SBA Communications is a leading independent owner and operator of wireless-communications infrastructure, including tower structures, rooftops and other structures that support antennas deployed by mobile network operators to enable the provision of voice, data and video services. The Florida-based company, which was founded in 1989 and operates more than 33,000 communication sites in 14 countries, offers investors a defensive investment exposure that is likely to benefit from the extraordinary growth in mobile data consumption driven by adoption of bandwidth-intensive applications, including video, social media, enhanced web browsing, and machine-to-machine communication.

SBA Communications's defensive properties stem from its profound competitive advantages and an inherently resilient business model. With little overlap in the coverage footprint of existing towers and new construction limited by zoning regulations, the mobile network operator tenants struggle to foster competitive tension among owners of infrastructure. This inequality of bargaining power yields contractual terms that overwhelmingly favour the infrastructure owner: site leases over the SBA Communications towers are generally struck with an initial term of five to 10 years and contain fixed rent increases averaging 3% to 4% per annum in North America and Central America, while rents over the company's South American and South African assets are tethered to local inflation. Moreover, the strategic positioning of the SBA Communications assets and the meaningful switching costs borne by mobile-network operators attempting to reconfigure their networks have historically supported low levels of tenant lease terminations. These favourable terms confer on SBA Communications predictable, recurring revenues, and support tower cash flow margins above 80%. (SBA Communications defined tower cash flow margins as tower cash flow divided by cash site leasing revenue less revenue from pass-through reimbursable expenses.)

Expectations of continued rapid growth in mobile devices and demand for data position SBA Communications to deliver meaningful growth in cash flows. Ericsson, the Swedish telecommunications company, projects that global mobile-data traffic will increase about 4.5 times over the period to 2026, supported by the rollout of 5G technology in mature markets and the increased penetration of smart devices in developing economies. Critically, this rapid growth in demand for data will require mobile-network operators to develop new spectrum and increase the capacity of their networks, necessitating the installation of antenna equipment at new sites and the addition of incremental equipment to existing sites. SBA Communications expect this activity to support long-term net organic lease revenue growth in excess of 5% per annum in the US and high-single-digit to low-double-digit revenue growth in its international markets. The relatively fixed nature of SBA Communications's operating costs imply that this growth is likely to deliver highly attractive incremental returns on capital.