

Magellan – In The Know: Episode 22

The road to a sound investment – Transurban’s strategy for success

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 any investment decision.

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

This is In the Know, a monthly investment podcast brought to you by Magellan Asset Management, experts in global investing. We bring you timely, unique and thought-provoking insights to help you make sense of today's investment landscape.

Scott Charlton ([00:29](#)):

Most of our competitors come to a transaction and come to a position once government runs a process. So a lot of the big infrastructure competitors are more transactional. So if government announces something, then they'll come bid or they'll come compete. To us, we would be working on it years and years in advance.

Host ([00:46](#)):

That's Scott Charlton, CEO of the world's largest toll road operator, Transurban, speaking about how his company plays the long game. Welcome to Magellan, In the Know.

Host ([01:01](#)):

In this episode, Scott Charlton explains Transurban's philosophy of making data-driven decisions for investing in the three markets where it has a big competitive advantage, namely Australia, the USA, and Canada.

Host ([01:15](#)):

Scott is interviewed by Magellan's infrastructure portfolio manager, Ofer Karliner and head of infrastructure, Gerald Stack, about how this approach is paying off, as well as coming mega trends like autonomous vehicles and how a toll road operator can be successful in cutting carbon emissions. But first, here's a warm welcome from Ofer Karliner.

Ofer Karliner ([01:38](#)):

Welcome to our podcast, Magellan, In the Know. This is episode 22. I'm Ofer Karliner, a portfolio manager in the infrastructure fund here at Magellan. I'm joined by my colleague, Gerald Stack, the head of infrastructure, and Scott Charlton, the CEO of Transurban, the world's largest toll road company, which has assets in the US, Australia, and Canada. Transurban's been in our portfolio since inception in 2007. It's currently the largest position in the fund. So thank you very much for joining us, Scott.



Scott Charlton ([02:05](#)):

Thank you for putting us as your largest position in the fund. Didn't realize that. That's great.

Ofer Karliner ([02:11](#)):

Scott, I'm going to start by asking you, you've been with Transurban for almost 10 years. Your background wasn't in toll roads. How do you end up being the CEO of a toll road company?

Scott Charlton ([02:20](#)):

Yeah. Well, life takes these journeys, I guess, that you don't anticipate. I started out as an engineer. I actually wanted to be an architect, but my college teachers told me I couldn't draw. So I was good at math. So I became an engineer. I really enjoyed that, but then I got into the world of finance after I did an MBA.

Scott Charlton ([02:36](#)):

And so I spent a lot of time in investment banking, but always around infrastructure and construction, because I really like seeing big things being built, or I liked seeing the results rather than just say issuing paper or whatever it may be. So, was really always attracted to infrastructure and did that in the investment banking, for a long time.

Scott Charlton ([02:57](#)):

And then one of my clients was Leighton Holdings, back before they got taken over for a long time. And they asked me to come over and be the treasurer, and ended up being the CFO there for quite some time and really enjoyed that. But then, obviously that company got taken over and went to Lend Lease and became the COO, and then the opportunity came up for Transurban.

Scott Charlton ([03:16](#)):

So I sat on all sides of the fence, from designing to building to financing to operating and seeing all aspects of it. So it was just really a great opportunity for me to put that all into effect and just love creating these great opportunities. It takes a while in infrastructure, but yeah, I really enjoy creating things.

Gerald Stack ([03:36](#)):

So investment banking, construction, and toll road operation, ownership and operation. So in three pretty significant organizations. Tell us about the differences between them.

Scott Charlton ([03:45](#)):

No, it's really interesting, in how I made the changes. So look, in investment banking, and one of the reasons I got out of investment banking, I was in Hong Kong for a while, looking after all of Asia Pacific, in infrastructure and construction. One of the things, as you get higher up in investment banking, you get more and more client-focused and less transactional or deal-focused. And I really missed actually doing things and making things happen and feeling like it was down to me doing things and helping create things.

Scott Charlton ([04:14](#)):

So one of the reasons, then, I moved into the Leighton Holdings side of the business. And at that time, I think Leighton Holdings was about four, five billion. I think when I left, it was close to a 20 billion market cap. But it was going through a big growth spurt, and they needed some help and some expertise, particularly in financing. At one time, we were the largest contract miner in the world. We were Caterpillar's second largest client.

Gerald Stack ([04:33](#)):

Yeah. It was a period of serious success.

Scott Charlton ([04:34](#)):

Yeah, serious growth. But it was really interesting and Leighton Holdings was all about performance and probably too edgy on performance. So it was very edgy on performance at that time. Things have changed since then. The takeover and other things caused some issues, but I learned a lot about performance. And at the time Leighton Holdings or Leighton Group was operating many of the toll roads. They actually developed many of the toll roads, at the time where investors lost a lot of money, and that's a different thing about what you value and who's in control.

Scott Charlton ([05:02](#)):

So I learned a lot about the operations. I learned a lot about performance. And then after that ended, and going over to Lend Lease, which was really interesting there, and was the COO and had HR reporting to me. Learned a lot about culture and people and collaboration and really management, because Lend Lease has such a great historical culture and a different way of doing things.

Scott Charlton ([05:23](#)):

So I think both organizations and investment banking, taught me many different things, that has enabled me to hopefully bring the best of everything together at Transurban, because they each had their real strong aspects. But each of them had, I think, some issues that in the end, cost those companies in the way the leadership turned out or their performance. And they're too heavily focused, one side or the other.

Gerald Stack ([05:46](#)):

Okay. So that then leads me to the nature of concession organizations. Concession organizations, Transurban is one of them, have historically had what I would describe or characterize as somewhat adversarial relationship with government. I think really from day one at Transurban, you've adopted a much more partnering, driven approach. Does that come out of that time?

Scott Charlton ([06:06](#)):

Yeah, it does come out of that time and it comes out of what I thought what the company could achieve. It was interesting when I was asked to come speak to the board about the role and I said, look, I'm not really interested because at the time, to me, Transurban didn't have the relationship or the reputation that I would want to work for that organization. At the time, I thought it had a reputation of being difficult to work with, of being arrogant, of not wanting to do things, and had a certain view with certain clients that would make things difficult. So my discussion with the board was we'd really have to change

some things and we really have to go about it a different approach and think about the holistic approach with the client, with the networks, with everything else rather than being transactionally oriented.

Scott Charlton ([06:46](#)):

And the board was very, very supportive and backed me all the way. And yeah, we got in there and it took a long time in certain markets to get a change of attitude. But I think, you know what people don't do... And if you look at our strategy statement is people, particularly in the finance world, think it's all about money and the infrastructure's about money. It's not about money to the government, and that's one small aspect, but it's about delivery. It's about the community. It's about solving political problems, solving community problems. And at the end of the day, the best way to solve those problems is really just to get enough of a relationship. We can sit down with the government and say, here's the things that we have to have to make this work from our side.

Scott Charlton ([07:25](#)):

We understand these are your priorities. Tell us which ones you want us to rank and how high you want to do. And then I think what we're really good at is threading the needle to get everything to work. Whereas a lot of companies come to the infrastructure world and go, well, we have the money or we'll buy you out or whatever. But that's really not.... I think the government's-

Gerald Stack ([07:44](#)):

That's only the first part of it.

Scott Charlton ([07:46](#)):

Yeah. That's only the first part. And the other part is that we spend so much time with our communities and our clients over such long period of time building these relationships, trying to understand what they want. Most of our competitors come to a transaction or come to a position once government runs a process. So a lot of the big infrastructure funds, the big infrastructure competitors are more transactional. So if government announces something, then they'll come bid or they'll come compete.

Scott Charlton ([08:10](#)):

To us, we would be working on it years and years in advance because we would understand it's going to come to the market. We want to play a role. We think we can come up with a great solution and hopefully we do. But I think it was a real change of focus and opening up and investing in the clients and a lot around our other stakeholders. And the first few years it was interesting. It was a change of approach. And some of our clients were very skeptical and first time we went out and raised equity, so our security officer gave me a hard time. But over time, hopefully, we've done the right thing. But I mean, the returns speak for themselves and we understand that every transaction we have to earn our right. Yeah. So it was a big change. It was a big change.

Ofer Karliner ([08:54](#)):

You talk about government priorities there, obviously for most of the life of Transurban interest rates have been low, inflation's been low, you were clean shaven. At the moment-

Scott Charlton ([09:04](#)):

I'm old now I just don't care.

Ofer Karliner ([09:06](#)):

... we're seeing inflation tick up significantly, cost of pressures on the political agenda across the spectrum. How has that changed your approach or your thinking more recently?

Scott Charlton ([09:15](#)):

Yeah, no, that's good questions. And I said to the team, as we went through COVID and we went through the other things, I don't think we've talked about in some situation, this is my seventh crisis to live through without beards. And they're all a bit different. But I think one of the things we did, again, is one of the things that I'm very focused on in Transurban is being data-driven and look at the data and what the data actually says, as opposed to what people think and what people are doing.

Scott Charlton ([09:39](#)):

Because it's interesting what people do as opposed to what they say and what they think. Because a lot of people say they want public transport as long as someone else takes it or they want this or they want that. So you've got to match what people say with what they actually do and having lived through these different crises and even through COVID we took a very measured response and I think we came out okay.

Scott Charlton ([10:01](#)):

So I think as we look at going through this next challenge... And I was here back in... I think it was '95. It was in New South Wales when Bob Carr said he was going to take the tolls off the M4 and the M5. And so we have to understand and we provide for those customers that are in hardship and do need to deal with issues, but government's priorities change over time. And as long as we're listening to those government priorities... And again, we just announced the M7, M12 and solicited proposal going to the next step. And that again, is working with a new set of priorities from the New South Wales government, but also getting what we need to our transaction. So I think there's still a big role for us to play and we're still proving that out, but again, the minute we get arrogant or the minute we start listening to really what the client needs, and again, it's not about money then I think that's when we'll be in trouble. So we're very focused on listening.

Ofer Karliner ([10:50](#)):

Yeah. Okay. I touched on that development. You brought the M7, M12 up a minute ago, but I'm interested in the data-driven side of things. Obviously, traffic's recovered pretty quickly from COVID. There's been a lot of speculation about people working from home impacting your traffic flows. Obviously, public transportation usage is down significantly. That's contributed to the resilience of traffic on your roads. How do you see that playing out, going forward in terms of normalizing from the last couple of years?

Scott Charlton ([11:13](#)):

Yeah. And it's really interesting. So we have on, as every corporate has on the risk register, we had a pandemic risk on our risk register and we judged it based more on what happened under SARS. So we had

on the risk register traffic down 10%, so kind of blew through that. So we've got a new boundary on our risk register when it comes to pandemics. But even under that case, we didn't breach any covenants. We were well protected and we understand. And I think some of us have been around for a while. And when I was at Leighton Holdings during the GFC, government stopped paying us, banks withdrew all their lines. I'm never going to be in that position again where I feel like I'm under that kind of pressure. And actually, the treasurer that is with Transurban now was with me then. So he and I have been through a lot together and he's never going to put himself in that position either.

Scott Charlton ([11:58](#)):

So we got through that, and I think in relation to what we see coming through the data... And again, this is what people say and how they behave. So we've seen it recover quite quickly, as you said. There are some different patterns and we look at the long term trend lines. So my forecasters will tell me, "Scott, I'm looking at 40, 50 years," and no matter what the crisis or the issue is, it revolves around the long term trend line. Sometimes above sometimes it's below. It just revolves around that long term trend line. The bigger issues are things like migration, unemployment, those issues that have impact the longer term trend line. Yes, we will miss the Delta of COVID, but expect to get back to that longer term trend line.

Scott Charlton ([12:38](#)):

So what we're seeing is some of those longer term macro thematic play out, mobility as a service, working from home more, which impact the amount of vehicles on the road. But at the other side, then you've got the online logistics picking up. You've got an adverse reaction to some levels of public transport. And what we are finding also is that some of our accounts are growing faster than they were pre COVID. We're picking up new drivers, because those people that used to commute five days a week by public transport, if they're only go in the office two or three days a week, they think, well, now I'll drive rather than take public transport. So people are subtly changing their patterns. But I think what I always have to remind people and our own directors is we always talk about what is the level of growth, we're not talking ever about going backwards. It's just how much growth do we get out of these assets going forward. But I think we're just following the long term trend lines and we will revolve around that kind of line.

Ofar Karliner ([13:33](#)):

And just obviously again, you mentioned the M7 before. Within that portfolio, there's a lot of opportunities for expansion potentially to help meet that demand, as you talk about, from growing populations, et cetera. The market looks at the exceptional cases and sees a lot of risk around development. What do you think they're missing? How do you view that risk and assess that risk?

Scott Charlton ([13:53](#)):

Yeah. Look, every project's different, and that's one of the things I really like about Transurban. And we've got all kinds of people inside Transurban to look at the risk, assess the risk, to do the red teams or whatever we need to do to look at these things. So every deal is different. What we have found over time is particularly the expansion projects. I'll come back to your question, but the expansion projects are the least risky because we have more control. Then you've got the M&A transactions and then the more Greenfield sort of bespoke transactions. And so they each need to have a different return.

Scott Charlton ([14:26](#)):

As I'd say, if we go through and we can talk about West Gate in particular, but the rest of the projects we've come out always or ahead of business case, even when there have been issues because the way we protected the contracts. And going forward, horses for courses in how we do procurement, what risk we might take, the levels of contingency. So we're willing to work with our partners or the government on how we assess that risk. We're just not going to put ourselves into a acute position. And I apologize for West Gate. So I'm not trying to suggest that West Gate is anything but terrible outcome for Transurban, but still at the end of the day, no impairment and still going to be great long term asset for the company.

Ofer Karliner ([15:06](#)):

What went wrong on West Gate? How do you stop that happening next time?

Scott Charlton ([15:11](#)):

Yeah, there's a bringing of a few issues together in relation to West Gate. The first issue was, and I've been in the construction industry since... I think I was here since 1993. And the way you go about procuring construction contracts has always been you sign up the contract and then you confirm your environmental management plan and your development plans and all the other... Your construction plans, all that occurs after construction. And it's normally a bureaucratic process with some small pluses and minuses. We had the unfortunate circumstances in the case of West Gate that the EPA made a significant change post signing the contract. And in fact it was 18 months until the EPA determined how you would treat the material.

Scott Charlton ([15:54](#)):

And at the same time, we had the construction market moving substantially against the contractor and it was in their interest to use that to their advantage. And we had the state under significant political pressure and pressure to deliver it as we were. And then we had the issue that the problem became so big that it could potentially have a catastrophic impact on those construction companies. So legally, we still believe we were right, but I would hate to be here in 10 years being morally and legally right and have a big hole in the ground and not have a project. So I think the big thing was how we handled the EPA and that risk and we would have in hindsight. And we'd never seen it before. In hindsight, we would've locked that away before we signed the contract.

Ofer Karliner ([16:39](#)):

Okay. Just want to go back to something you said earlier in terms of what people say and what they do, as you stated, versus reveal preference and that sunk a lot of Greenfield toll roads in the early 2000s. More recently we haven't seen it as bad. You've seen some misses around the world and NorthConnex is the head business case. How do you get comfort when you're looking at those Greenfield toll roads that you're confident the traffic forecasts are more or less correct?

Scott Charlton ([17:02](#)):

Yeah. So look for us, NorthConnex is ahead, the M8 is ahead. Or the M5-M8 combination of our forecast. The 395, basically right on our forecast. So again, if I go back to that time and I was on the other side of the fence, so I was with the contractor... If you look at who the proponents of all those deals were, they were a combination of a contractor and an investment bank. And all the incentive on the contractor and the investment bank were the fees up front and the construction contract. So you get what you incentivize.

Scott Charlton (17:34):

And I think from Transurban's perspective, we are looking long term. Our partners are long term. We've got longer term LTIs. And so our incentive is to add value to the assets long term, not to make quick fees. Which is one of the reasons why we always like to be, again, when we partner, because some of these things are too big or we need support in getting some of these big assets. We like to partner with our big superannuation funds who have that long term view. So we're aligned there, but also, we really like to have the biggest equity stake in these deals so that every time we have a discussion on an operating cost or capital structure, whatever it may be, we can stand up and say, well we have more to lose or gain by doing this correctly. So there's no question that we are aligned to making these assets work long term.

Gerald Stack (18:22):

One of the things you talked about earlier on is that when you're going into a new project, you've been there for years. You've been thinking about it, essentially. Solving the problem ahead of time or trying to come up with a solution to the problem. So that then sort of suggests, given you're in international markets, you're not just in Australia. So that then goes to the way that you focus on particular markets. Because if you're going to put people on the ground, it really needs to be a long-term opportunity market. So can you talk to us about what you look for in those different markets?

Scott Charlton (18:47):

Sure. No, that's a good question. So look, when we look at how we go about it just to get into a market, so first is it strategic? And I'll come back to strategy. Does it fit strategy? Do we have the people resources to do it? So it's no good having the financial resources if you can't execute. Do we have the people resources? Then-

Gerald Stack (19:06):

It's kind of intensive use of people.

Scott Charlton (19:08):

Yeah, exactly. Do we have a competitive advantage? Do we have the financial resources, and how does it affect distribution? Because we know distribution's very important to our security holders. And if you look at it, we're looking for very specific circumstances. We're looking for, at this point, North America and Australia, we're looking for demographics where you have strong economic characteristics, you've got growing populations with supportive governments. And they come in and out, so it could be there's cycles, and the ability to create a network.

Scott Charlton (19:41):

Now you think about the US and you think, "Oh, well there just must be everywhere to do that." But actually, the US is not that many big cities. So you've got the Washington DC area. We talk about Canada as well. You got Toronto, then you got places like Dallas Fort Worth or Denver or LA or Miami. But if you start getting up to the Northeast states, you've got issues with unions, you've got issue on the privatization side. Chicago skyways is, I think, probably going to come back up. But just the demographics of Chicago, you have to think of a lot of times-

Gerald Stack (20:14):

Not quite as attractive.

Scott Charlton (20:15):

Yeah. Is that work? So it's very specific circumstances. And then do you have a competitive advantage and what's your competitive advantage? And because people often ask us when something comes up in Spain or France, "Well, why don't you go to Spain or France?" And it'd be difficult for me to explain why I have a competitive advantage in Spain or France and how that could possibly work, given that those markets are less conducive to outsiders. I think Australia is one of the most open markets in the world, but still when they come to Australia, a lot of the foreigners, they're still missing some of the subtleties of working in Australia.

Scott Charlton (20:52):

Yeah. So it's a tough set of criteria to get. So to get into a new market we've got to come in with a partner or some sort of competitive advantage or see a really long term outlook. And actually, I'm going to Montreal to talk about some stuff with the government there. So we see good long term opportunities there in that region. And then we have the partnership with the CDPQ that we've got in WestConnex that we'll try and leverage on obviously in their hometown of Montreal as well.

Gerald Stack (21:18):

And when we talk to investors, we talk about urban toll roads as being the kings of infrastructure assets.

Scott Charlton (21:23):

Yes.

Gerald Stack (21:23):

But when we talk about that, typically what is unspoken is that we think about that in an urban center where there's rising population. Rising population, where the free roads are full, then the traffic's only got one place to go. And hence, we love that stuff. To what extent does the population or the demographics of the region play into the way that you think about a potential opportunity?

Scott Charlton (21:42):

Yeah, absolutely. So if you look at something like Washington DC, one of the reasons why we like that Northern Virginia, Maryland they got the... I don't know. The top five, at least. I think sometimes it's first, second, and third economic capability of that market. So one is what do the economics say? Is it a growing population? What kind of population, again? So we look at Europe and there's some great assets in Europe, some of the great toll roads in the world, but again, you've got a population that's probably not growing that fast. It's just a very different characteristic and competition environment for us. So yeah, the demographics. And that's why most of the markets that we look at are in the sort of mid to Southern US where those basically have been the more growth oriented areas.

Gerald Stack (22:24):

Can we talk a little bit about driverless cars? If we were to go back five years or so, driverless cars were widely thought to be upon us by now. There was some reasonably aggressive forecasters, I think, as it

turned out in terms of the adoption rate of driverless cars. Hasn't quite played out that way. What do you see as you go forward? What do you see in terms of the development? What does it mean for the business model?

Scott Charlton ([22:43](#)):

Yeah. So, no, it's interesting. And there's quite a few things I think we've talked about before. So just when you get the driverless cars, you've got mobility as a service really increases as well. So there's a few trends that will come together. I think when all this started in peak hype, we talked about it and everyone was wanting us to talk about driverless cars. And we formed an internal view that was more the middle of next decade that it was really going to have an impact. So the middle of 2030s, it started really having an impact because you need to have so many of them in the fleet.

Scott Charlton ([23:09](#)):

And you start to see, obviously, with brand new cars, there's certain aspects that have some level of autonomy, but nothing like we're expecting. So we do still see that as a major benefit for our roads, because that'll be the first place they're most likely used and particularly freight. And hopefully we could use that capacity off peak. In other words, for freight and more autonomous movements around freight. And we saw it during COVID, which was a real benefit, not only to our roads, but we think to the community, where the local councils freed up the ability to deliver freight outside of business hours.

Scott Charlton ([23:44](#)):

And when you move to electric vehicles and they're quieter and other things. So we think there'll be the ability to utilize more time on the road. And then, obviously, with autonomy, you can utilize more space on the road. So we think it's a plus plus, and then you've got mobility as a service, which will keep making personal transport or personal road use cheaper. So I think that's the other thing that we look at is if you look out over the last 100 years, since cars really came into mass production and mass use, the real cost per mile or kilometer really hasn't changed. But when you look at what's forecast, it's forecasted depending on who you talk to. 30 to 50%. So the real cost of road transport is going to drop, which is going to be an issue for those intermediate modes, we believe, of transport. So buses, light rail, you're still going to need the heavy rail to move a lot of people to the cities and to the big employment districts. So if you think it's going to get cheaper, you're going to be able to put more with technology in autonomous vehicles, more cars on the road. Again, we think the long term benefit, Transurban, as long as you take advantage of them, again, it's just about how much growth we can capture.

Gerald Stack ([24:56](#)):

Okay. So the trend is in your favor in that the cost of travel goes down. So that should lead to an increase in the volume of trips. I get that; at some point when these things are viable. Do you have a game plan for pragmatically how it works? Because it's all well and good if 10% or 20% of the vehicle fleet is autonomous. To my simple view, that doesn't necessarily deliver you a huge benefit up front. At 95%, sure. There's huge benefits. But how do you segregate them on the road? How do you deal with those practical issues?

Scott Charlton ([25:22](#)):

Yeah, no, that's a good question. And I should have said as well, when we were talking about the middle [inaudible 00:25:26]. We talked about, obviously, peak hype as well. So if you look at it in the way which

you guys would've looked at, you look at any trend, whether it's mobile phones or whatever, 10 years before it actually gets in place is usually peak hype and a technology trend. So usually 10 years out is peak hype. Everyone's talking about it's going to be here tomorrow and then nothing happens. And then 10 years later, all of a sudden, everyone goes, "Oh, it's here."

Gerald Stack (25:48):

It's here.

Scott Charlton (25:48):

And so we expect something similar to Cav. So we're working with... I think we're up to eight different vehicle manufacturers on how their cars could work on our road and everything we do when we upgrade our roads or build new roads now, the amount of fiber optic cable we're installing to make it ready. So it's the whole issue of, is it the car that's doing all the work? Is it the car and the road? What's the road doing? How do we interact with that? And one of the things that we're doing and looking at it right now is hopefully in the very soon of the future, we're looking at some trials with trucks.

Scott Charlton (26:21):

And again, sort of going to that issue of moving freight, particularly off peak at night. So we think that freight is probably likely the first place we'll see a real benefit. So I think the cars will come, but like you said, that you got to get up to 30% of the fleet or so to make a big benefit. But I think freight can make a big difference. And even now in some place like Melbourne where we have the lane use management system and other things, we could effectively at night isolate those-

Gerald Stack (26:49):

A particular lane.

Scott Charlton (26:50):

Yeah. A particular lane, or isolate those roads to just say, okay, they're closed to everything but autonomous trucks. So we're looking at some of that stuff right now. And to be honest, which has been good, the governments have been pretty open to trials. We thought they might be a bit more hesitant, but I think they understand the trends are coming in. They've been pretty open doing some things like that. So hopefully that's something we can talk about in the near future.

Gerald Stack (27:12):

Carbon? Carbon emissions' a big theme. It certainly across the investment world. Now Transurban, not a big emitter of carbon, but in building roads, plenty of carbon will be involved in the construction of roads. Do you see a future where road construction involves much less carbon?

Scott Charlton (27:27):

Yeah. Well, we're trying to. I mean, we're working very hard on that. As you said, we're not a big emitter of carbon and the stuff that we're doing, Scope one and two, will be done before 2030, at zero position there. And then obviously we targeted in 2050 and we have some plans and working with... I hate the name. MECLA, Materials and Embodied Carbon... Yeah. That's-

Gerald Stack (27:47):

It's a mouthful.

Scott Charlton (27:48):

Yeah, it's a mouthful, but it's basically the whole industry, all the major suppliers, material suppliers and us, and the major users of them, to work on zero emissions, concrete, and green steel and the other things that we needed to do. Because that's our biggest hurdle long term is to look at the supply of the materials. But everything that we're doing now... And we're the first to get ESCA ratings on major infrastructure projects. We're the first to get the excellent as as-built. So we're working very hard to make sure we can do as much as we can now, but there's much more to do. And that's our biggest challenge is concrete and steel for the long term. But we're working with suppliers on that.

Scott Charlton (28:27):

A lot of times that is more where we come up to barriers with the government. So we've got some new asphalt, some low emissions asphalt that we're using in Queensland on a trial basis. And it took us a while to get that approved through the standards process. But that's worked, I mean. And for those of you who don't even know, even to get... All the new tunnels in Sydney use concrete base now and all tunnels used to have asphalt, but of course you have to replace the asphalt every sort of 10 to 15 years, depending on the wear. That's a lot of carbon. But even to get the standard to move to concrete, took us a long time, but it's a much better service, much better from operation costs, but also from emissions. So there's all these little things that we're constantly doing. But the big challenge is those materials, which we're working with the industry on and spending some money there.

Scott Charlton (29:16):

But the other thing I know your investors or listeners will probably be interested in is the vehicles. And that's the one that always... We acknowledge that the Scope 3, in relation to the vehicles that drive on our road under the science-based targets, which we follow and everything, they're not our emissions. So they go to the emissions of the manufacturer of the vehicles. But still, we want to do everything we can to lower the emissions, obviously using the toll roads and you can see on our apps we can reduce your emissions by 30% from using the roads as the alternatives. We've got driving initiatives around better energy use. We're obviously supporting zero emission vehicles where we can. So there's lots of things that we can do to try to support that transition, which really it does lower the cost of transport long term. But obviously, it's just the right thing to do, even though it's not considered in our scope.

Gerald Stack (30:06):

The framework we seek to look at the transition to a zero carbon economy is that you need an alternative technology. The technology has got to be economic and then you need government policy support. It seems that we've got government policy support broadly for these things. I'm not sure if they've been-

Scott Charlton (30:23):

Yeah, I'm not sure. Yeah.

Gerald Stack (30:24):

Okay. So when you are tendering for things, no one's specifying low carbon?

Scott Charlton (30:28):

So we're the ones saying we want it escalated.

Gerald Stack (30:29):

You're leading it.

Scott Charlton (30:30):

Yeah. So we're the ones. Again, that's where we were the first. We said, "Okay, we want the ESCA rating. Just depends on the government and where they're doing things, but they're not necessarily saying, "Okay, you have to use low emissions concrete," or, "You have to use..." And so, when you go through procurement process and you're working with the government, you do have to follow their procurement process. So I think over time, the government's going to have to, if they're going to meet their targets, step up and say, "Okay, we're going to take that cost on zero emission concrete or low emission steel." So we're on that journey and things are improving, but we're not at that point yet.

Ofer Karliner (31:07):

That was my question about how the government thinks about this. So yeah. Thank you.

Scott Charlton (31:10):

Well, I think, look, and they've moved a long way and they're continuing to move, but it's still... They have the big targets, but the issue between the big target and then setting out a construction contract and saying, "I want this concrete, I want this deal. I want this. And that's going to cost me 20% more."

Ofer Karliner (31:28):

And if you're a competitive bidding process, then they're not going to appreciate the higher cost, effectively.

Scott Charlton (31:33):

Yeah.

Ofer Karliner (31:34):

All right. Scott, thank you very much for joining us today. That's great. Hopefully the listeners have got an appreciation for why you're the biggest position in the fund and why we've been such long term holders. Thank you.

Scott Charlton (31:43):

No, thank you.

Gerald Stack (31:43):

Thanks, Scott.

Scott Charlton ([31:44](#)):

Thanks guys. Cheers.

Host ([31:45](#)):

That was CEO of Transurban, Scott Charlton, who was interviewed by Magellan infrastructure portfolio manager, Ofer Karliner, and head of infrastructure, Gerald Stack. We trust you've enjoyed this episode of Magellan, In the Know. Join us in a month's time for the next episode. For more information on upcoming episodes, visit magellangroup.com.au/podcast, where you can also sign up to receive our regular investment insights program. Thanks for listening.

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