Magellan Core Infrastructure Fund

(MANAGED FUND) (TICKER: MCSI)

A diversified portfolio of 70-100 of the world's best infrastructure companies

PORTFOLIO MANAGER	GERALD STACK	ARSN 646 028 131	APIR MGE9182AU	AS AT 30 SEPTEMBER 2024

INVESTMENT PHILOSOPHY

To invest in a diversified portfolio of high-quality infrastructure and utilities companies that exhibit highly predictable cashflows.

OBJECTIVES

To achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified exposure to infrastructure securities that meets our definition of infrastructure.

PORTFOLIO CONSTRUCTION

An actively constructed portfolio of 70 - 100 securities that meet our proprietary definition of infrastructure, rebalanced in a systematic manner.

Typical cash and cash equivalent exposure between 0-5%.

INVESMENT RISKS

All investments carry risk. While it is not possible to identify every risk relevant to an investment in the Fund, we have provided details of risks in the Product Disclosure Statement. You can view the PDS for the Fund on Magellan's website www.magellangroup.com.au.

MFG CORE INFRASTRUCTURE FUND: KEY PORTFOLIO INFORMATION

TICKER	FUND SIZE	NAV PER UNIT#	BUY/SELL SPREAD[1]	MANAGEMENT FEES[2]
MCSI	AUD $431.8 million	$1.6225 per unit	0.15% / 0.15%	0.50% per annum

PERFORMANCE[3]

INCEPTION DATE 17 DECEMBER 2009^

	1 MONTH (%)	3 MONTHS (%)	6 MONTHS (%)	1 YEAR (%)	3 YEARS (% p.a.)	5 YEARS (% p.a.)	7 YEARS (% p.a.)	10 YEARS (% p.a.)	Since Inception (% p.a.)
Fund	2.9	13.0	11.8	22.1	4.9	3.8	5.8	8.0	10.7
Index*	3.2	11.0	13.5	25.6	8.4	4.7	5.4	6.5	8.0
Excess	-0.3	2.0	-1.7	-3.5	-3.5	-0.9	0.4	1.5	2.7

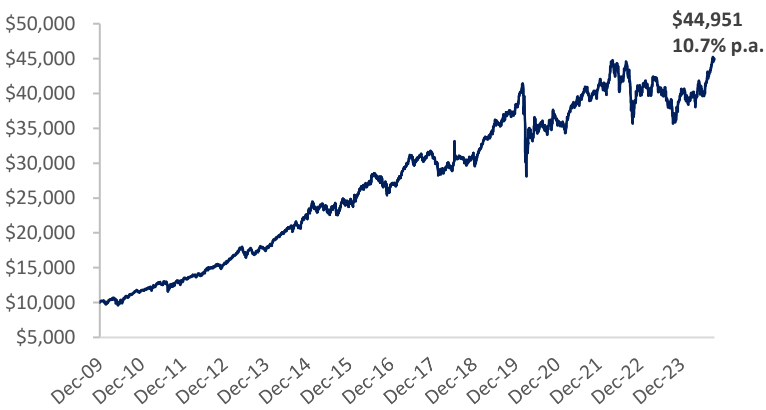
CALENDAR YEAR RETURNS	CYTD (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (part year)
Fund	11.8	1.2	-5.5	16.7	-5.8	27.2	-2.4	14.1	9.7	7.1	27.4	15.5	15.6	15.2	15.2	1.9
Index*	16.5	3.4	1.3	13.7	-11.9	25.3	-6.7	14.4	14.1	-5.4	22.9	18.5	9.1	4.7	5.7	0.9
Excess	-4.7	-2.2	-6.8	3.0	6.1	1.9	4.3	-0.3	-4.4	12.5	4.5	-3.0	6.5	10.5	9.5	1.0

Past performance is not a reliable indicator of future performance.

TOP 10 HOLDINGS

Company	Sector[4]	%
National Grid Plc	Transmission and Distribution	2.97
Cellnex Telecom SA	Communications	2.94
TC Energy Corporation	Energy Infrastructure	2.94
Ferrovial SE	Toll Roads	2.92
Fortis Inc	Transmission and Distribution	2.88
Enbridge Inc	Energy Infrastructure	2.85
Aena SME SA	Airports	2.84
Transurban Group	Toll Roads	2.82
Vinci SA	Toll Roads	2.75
Terna SpA	Transmission and Distribution	2.23
	TOTAL:	28.14

PERFORMANCE CHART GROWTH OF AUD $10,000[3]

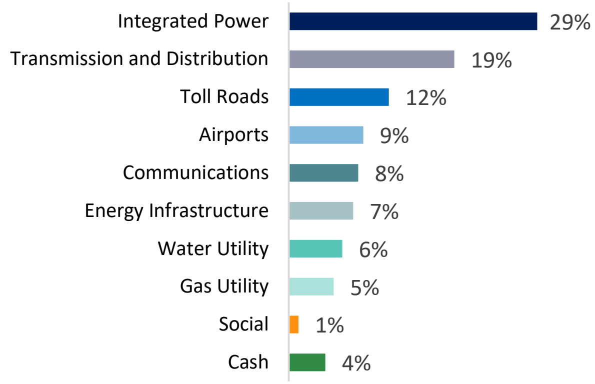


Past performance is not a reliable indicator of future performance.

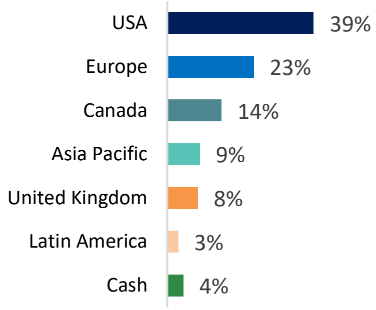
[1] Only applicable to investors who apply for units directly with the Responsible Entity.
[2] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST;
[3] Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.
[4] Sectors are internally defined.

* S&P Global Infrastructure Index A$ Hedged Net Total Return spliced with UBS Developed Infrastructure and Utilities Index (A$ Hedged) Net Total Return prior to 1 January 2015. Note: as the UBS Developed Infrastructure and Utilities Index (A$ Hedged) Net Total Return ceased to be published from 31 May 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Index (A$ Hedged) Net Total Return.
^ The Fund was established on 17 December 2009 as an unregistered managed investment scheme. On 19 November 2020, the Fund's name was changed to MFG Core Infrastructure Fund and on 30 November 2020 the Fund was registered with ASIC as a registered managed investment scheme and became available to retail investors. On 11 January 2024, the Fund's name was changed to Magellan Core Infrastructure Fund.

SECTOR EXPOSURE[5]



GEOGRAPHICAL EXPOSURE[5]



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

Fund Commentary

The portfolio registered a strong positive return in the September quarter, due mostly to the decline in bond yields across major markets.

Some of the largest stock contributors over the September quarter were TC Energy, Cellnex Telecom and National Grid. Shares of Canadian energy infrastructure company TC Energy rose after the company reported strong quarterly results and suggestions that deleveraging could accelerate post the spin-off of South Bow Corp. Spanish telecommunications company Cellnex Telecom climbed during the quarter after announcing the completion of its Austrian asset sale, which improved the likelihood of accelerated shareholder returns. Shares of UK-based transmission and distribution utility National Grid were lifted by constructive comments made by Ofgem, the UK electricity networks regulator. Ofgem noted its approach for the upcoming rate review (RIIO-3) would largely be in line with the previous determination, while also suggesting that final allowed returns could potentially be higher than expected.

Stocks detracting the most over the three-month period were CenterPoint Energy, Algonquin Power & Utilities and APA Group. Shares of US utility CenterPoint Energy came under pressure during the quarter after the company faced criticism and potential penalties from Texas officials over its response to customer outages related to Hurricane Beryl. Canada-based Algonquin Power & Utilities declined as management issued a pessimistic outlook for its core regulated utility business. Meanwhile, shares of APA Group fell during the period after issuing lacklustre earnings guidance for the upcoming financial year.

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. 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 the current uncertain economic and investment climate, 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 – Vopak

(David Costello – Portfolio Manager)

Royal Vopak, a titan in the global tank storage industry, boasts a rich history, tracing its roots to storehouses at the ports in Amsterdam and Rotterdam in the 17th century, storing spices, tea, coffee, tobacco, margarine fats and other staples for the Dutch East India Company. Adapting to the shifting tides of global trade, one of Vopak's corporate forebears accepted its first shipment of petroleum for storage in 1862. As global demand for crude oil and refined petroleum products surged in the early 20th century, fuelled by the rise of the automobile, the storage of oil products and liquid chemicals would emerge as one of the Group's core activities. A spate of industry consolidation starting in the late 1960s and continuing into the 1990s conferred economies of scale, enabling the Group's expansion into international markets. A period of dramatic growth in Vopak's global storage capacity followed in the early 2000s, with the company investing heavily to serve rapid growth in demand fuelled by China's astonishing economic ascent and the burgeoning liquified natural gas industry. Today, Vopak operates a global network of more than 70 storage terminals in 21 countries. Its network represents a critical link in the global supply chain, with the company's strategically positioned terminals on key maritime trade routes, enduring relationships with customers and unrivalled environmental and safety credentials conferring a leading position in the global market for the storage of oil, gas, chemicals and refined industrial products. This advantaged position within the global trade ecosystem, in turn, sustains consistently high levels of utilisation for the company's assets, supporting the generation of reliable cash flows and underlying proportional EBITDA margins well above 50%.

In recent years, increased focus on the decarbonisation of the global economy has prompted fears that structurally declining demand for fossil fuels could undermine the durability of Vopak's earnings. These fears weighed heavily on the company's market valuation in the period 2020 – 2022. While the trailing 12 months have seen Vopak's stock price recover much of the ground it lost during this period, relative valuation metrics remain compressed by historical standards, despite strong recent results and expectations of continued robust medium-term financial performance.

We believe the concerns over the durability of Vopak's business model are overstated, exhibiting a failure to recognise the subtle but significant shift in the company's portfolio in recent years, and the growing share of its earnings secured by long-term contracts.

A subtle, but significant shift in Vopak's portfolio

Continuous portfolio optimisation over the last decade has subtly repositioned Vopak's business. In 2014, oil and chemical storage terminals dominated the company's portfolio, accounting for ~90% of proportional capital employed. By contrast, Vopak's current portfolio exhibits greater balance. In the first half of fiscal 2024, the company reported that approximately 50% of its proportional capital employed was allocated to oil and chemical terminals, with the remaining 50% of its capital employed in markets expected to be strategic growth drivers in a global economy that is seeking to balance ambitions for rapid decarbonisation with the imperative for maintaining energy security – gas and industrial terminals and storage for low- and zero-carbon fuels.

The transformation of Vopak's portfolio has followed from the implementation of a concordant and clearly articulated strategy, executed along three fronts:

- The company has divested a significant portion of its legacy oil and chemical storage capacity, often exhibiting deft market timing to secure highly accretive valuations at cyclical peaks.
- Management has repurposed traditional oil storage capacity, deploying modest amounts of new capital to convert existing maritime fuel infrastructure to support the storage of sustainable aviation fuel and renewable diesel in Los Angeles and to convert oil storage facilities in Deer Park, Houston, for vegetable oils. Both projects are underpinned by long-term commercial agreements and are expected to deliver attractive operating cash returns[1] above 15%.
- Management has deployed almost €900m of consolidated capital expenditure into growth opportunities in gas and industrial storage since November 2022, increasing proportional capital employed in these verticals by more than 50%. Projects are overwhelmingly supported by long-term commercial agreements, with most projects expected to deliver operating cash returns of over 15%.[1]

Buoyed by strong market demand, the transformation in Vopak's portfolio has supported strong expansion in returns on capital, with the company's results for the first half of fiscal 2024 demonstrating a proportional operating cash return1 of 16.7%, ~450 bps above the level achieved in 2021.

Further deployment of growth capital into gas and industrial terminals and storage capacity for sustainable fuels and feedstocks is expected to continue to optimise Vopak's positioning for the energy transition. Management has committed to deploy €1 billion of consolidated growth capital expenditure into 'new energies' opportunities by 2030 and is widely expected to upgrade its 2030 consolidated capital expenditure target for gas and industrial terminals, having already achieved ~90% of the aspiration announced at its 2022 Capital Markets Day. Collectively, these investments are expected to see the share of Group capital employed attributable to gas, industrial and new energies terminals grow from ~50% at the end of 2023 to 60-70% by 2030.

A growing share of earnings secured by long-term contracts with inflationary escalation clauses

Significantly, the evolution of Vopak's portfolio has also enhanced the resilience and predictability of its earnings and cash flows. Where oil and chemical storage contracts are typically struck with short tenors, ranging from a few months to five years, gas and industrial contracts exhibit much longer duration: typically at least 10 years for gas contracts and at least 20 years for industrial contracts. The shift in the composition of Vopak's portfolio has thus significantly lengthened the average duration of its contracts, with the proportion of contracts initially struck with a tenor of at least 10 years rising from ~23% in 2015 to ~34% at the end of 2022 and the average duration of the company's contracts now greater than 10 years. Notably, gas and industrial storage contracts typically include inflationary escalation clauses, an attribute rarely replicated in shorter-term oil contracts.

Predictability amidst transition

With a storied history spanning more than 400 years, Vopak has navigated countless transitions in the flows of global trade. With a portfolio that has undergone a subtle but significant transformation to optimise its positioning, and a growing share of earnings secured by long-term, inflation-linked contracts, we expect the durability of Vopak's earnings and cash flows to persist as the global economy transitions towards net zero.

Sources: Company disclosures.

[1]Vopak defines operating cash return as proportional operating cash flow divided by average capital employed. Proportional operating cash flow is pre-tax and excludes growth capex, derivative movements and working capital movements. Management defines proportional capital employed as proportional total assets excluding assets and current liabilities that are not related to operational activities.