



## Q4 2024

### Magellan Global Listed Infrastructure Update

The Magellan Infrastructure team takes us through key insights that have been driving the infrastructure sector and market environment. They share insights into companies that have performed well during quarter and those that have faced challenges, highlighting opportunities and risks investors should consider.

#### **Could you discuss the performance of the funds and the key factors influencing it?**

The fund's performance over the last 12 months was in line with expectations, achieving CPI plus 4-5%. Most of this performance came in the September quarter, driven by the defensive characteristics and diversification benefits of high-quality infrastructure investments during market downturns. Despite this, the fund underperformed the index due to the exclusion of certain stocks, such as oil and gas pipelines, which contributed significantly to the benchmark's performance. Volatile interest rates throughout the year also impacted results, but the market's appreciation for the fund's defensive qualities helped maintain overall performance.

#### **How did the utilities sector perform over the year, and specifically our focus on utilities and transport infrastructure?**

In 2024, the utilities in the strategy delivered highly predictable results, aligning closely with management's guidance from almost a year ago. These investments are evolving in line with long-term earnings growth expectations. Reflecting on the long-term fundamentals of our utility holdings, 2024 not only held steady but saw improvement. For example, UK water utilities are set to benefit from unprecedented investment levels and higher capital costs over the next five years, leading to the fastest earnings growth since privatisation in the 1980s.

Electric utilities also saw strong tailwinds from the need to replace aging infrastructure and decarbonise power systems.

This was reinforced by a resurgence in electric demand growth, with integrated power companies revising their resource plans to reflect significant increases in expected load growth. This trend supports substantial upgrades in utility capital plans. For instance, WEC Energy revised its capital plan by 18%, National Grid planned to spend £60 billion over five years, and Semptra's Oncor subsidiary is expected to increase its capital plan by 40-50%. These investments, under regulatory constructs, ensure that every dollar invested yields an authorised rate of return, accelerating earnings growth.

#### **How did the transportation sector perform?**

In 2024, the performance of toll roads or motorways in the portfolio was mixed. Ferrovial, for example, had a strong year with its key motorway asset in Toronto, Canada, benefiting from toll price increases and strategic asset sales, which boosted its share price. On the other hand, Vinci, a French-based company, faced challenges due to political instability and fiscal pressures in France, which impacted its performance despite reasonable underlying revenue trends and valuations.

Airports also showed decent performance, with continued capacity and passenger growth post-pandemic. Markets geared towards personal and leisure travel, such as those served by the Spanish company Aena, saw strong performance. Key assets like Madrid and Barcelona airports led to upgraded guidance throughout the year, supporting share prices. Overall, the sector's performance varied, but there were notable successes driven by strategic decisions and market conditions.

#### **Could you discuss the recent performance of power companies and oil and gas energy infrastructure, and explain how their success has impacted our relative performance, given that we exclude these sectors due to their exposure to fluctuating prices and competition?**

There were a couple of negative influences on our relative performance, both of which we exclude from our investable universe. The first is the power companies, specifically the

merchant and unregulated companies in the US. These companies have performed exceptionally well due to the dramatic growth in data centres, which require significant power supply. They have been able to command premium pricing by providing solutions such as reopening or extending the life of nuclear assets and delaying the retirement of gas plants. This has led to a tighter supply for power, with forward pricing in recent auctions increasing by up to 50%. However, we expect the supply-demand market to normalise over time as regulated utility companies catch up in adding capacity and data centre growth slows down.

The second negative influence is the oil and gas pipeline sector, which has seen strong performance driven by volume growth rather than price increases. This is due to continued demand from gas-fired power plants and robust growth in the LNG export market. Additionally, some stocks in this sector have benefited from the recent US elections, with President-elect Trump running on a fossil fuel-friendly platform. These factors have contributed to the sector's success, impacting our relative performance as we exclude these companies from our investments.

### What opportunities lie ahead in the infrastructure sector?

There are promising opportunities in the airport sector, with robust demand despite cost of living pressures. Aircraft load factors remain high, indicating that capacity has not fully returned due to manufacturing issues at Boeing and Airbus. Only about 1,250 planes were delivered this year, far below expectations, with a backlog of around 17,000 planes. This situation is expected to improve over the next two to three years, increasing capacity, reducing ticket prices, and boosting passenger volumes, especially at leisure-focused airports.

Political instability in France has created some caution, as it could impact share prices despite the sector appearing cheap. In the utility space, European utilities are generally undervalued, while the US market is more mixed, with pockets of overvaluation and undervaluation. The focus is on capitalising on these mispricings by targeting undervalued stocks with short-term issues that are reflected in long-term share prices.

### What are the risks to consider for the infrastructure sector?

Infrastructure investments typically offer stable and predictable earnings, so economic outlooks aren't the main concern for investors. Instead, interest rate volatility has been a significant factor, with rates fluctuating due to inflation cooling and central banks cutting rates, followed by increases after Donald Trump's election.


While the businesses themselves are generally well-protected from these changes, share prices can be impacted by short-term interest rate movements. Valuations currently seem reasonable, but the unpredictability of rate changes remains a concern.

Another key risk is the social license and sovereign risk, particularly in the context of rising living costs. Governments under financial pressure may target companies that aren't in good standing, such as some French motorway companies, by imposing taxes. Effective risk management involves identifying and pricing these risks to avoid overpaying. Despite these challenges, accurately pricing these risks can also create investment opportunities.

In summary, while there are some risks to monitor, we expect infrastructure investments to deliver returns of inflation plus 4-5% over the medium to long term. Despite market fluctuations, the stable nature of infrastructure supports consistent earnings and wealth growth. We remain confident in these strategies and welcome any questions you may have about the Magellan infrastructure strategies.

Watch the video [here](#)

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