

## Global Select Infrastructure Strategy Update - 19 March 2020

The following seeks to explain how we view the covid-19 crisis. While the situation is fluid, we can see that the lockdown of communities is hurting many companies including some that we invest in. This has prompted us to increase the defensiveness of the Global Listed Infrastructure strategy by reducing our weighting to airports and toll roads and increasing cash in the strategy from 4% to 15%.

Our investment universe comprises regulated utilities (water, gas and electricity) and infrastructure companies (toll roads, airports, communications infrastructure, energy infrastructure and rail). Overall, the health emergency has impacted infrastructure businesses harder than utilities.

Regulated utilities might face some short-term declines in earnings but we do not expect significant changes to their long-term earnings outlooks. Their earnings are highly defensive and regulators generally allow for losses due to issues outside of the control of the regulated utility to be recovered over the near to medium term.

Within our infrastructure universe, the airports and toll roads segments face significant short-term declines in patronage. Airports and toll roads provide essential services and the demand for the services will return over time. However, the duration of the lockout and any following economic downturn will be key to how these companies recover. We have allowed for a significant drop in passenger movements and car trips in our forecasts and assess that our companies have sufficient cash flow and liquidity to manage through the economic downturn. While we expect that some of these companies will reduce their dividends in the short term, our experience of previous demand shocks in the transport industry gives us confidence that the demand for transport will recover over the longer term, which will lead to resilient earnings and dividends.

The strategy has investments in US rail companies which are likely to experience a drop in volumes across their networks. The US rail businesses are diversified across a range of segments and we would expect volume losses due to interruptions to supply and economic decline to be recouped as the US economy recovers. Similar to above, we have appraised the financial strength of these companies to be able to withstand a US recession.

While the pace of development of the infrastructure networks of telecommunications infrastructure companies might slow, we expect the earnings of these companies to be highly defensive in response to this crisis. The demand for data across mobile telephony and the internet will grow and continued investment in telecommunications infrastructure is necessary for this demand to be satisfied.

The energy infrastructure companies in the strategy generate earnings by storing oil, gas and chemicals or transporting oil and gas across their pipeline networks. These companies have limited exposure to changes in the oil price and, while the revenues they earn from transporting oil and gas can change with movements in volumes, underwritten 'take or pay volumes' usually account for the majority of revenues so we assess their exposure to volume decreases as low. If the customers of these businesses have solvency issues then this could cause problems, but access to energy infrastructure services is essential to their ability to earn revenues (i.e. it's non-discretionary spend to the extent they remain operating). Importantly, we note that the overwhelming bulk of customers these companies serve are investment-grade credit quality. We thus believe the energy infrastructure companies are well placed to cope with the economic consequences of the virus.

We are confident that the underlying businesses that we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses that 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.

We understand that communications with investors and advisers are important to enable you to understand and explain the issues to your clients. We are working to thoughtfully consider and manage our investment portfolios in a proactive manner. We understand that clients are concerned by the state of the world. Please rest assured that we are focused on the task at hand.

Please keep safe and best wishes,



**Gerald Stack,**  
Head of Infrastructure

**Important Information:** This material is being furnished to you to provide summary information regarding Magellan Asset Management Limited 'doing business as'/'trading as' MFG Asset Management ('MFG Asset Management') and an investment fund or investment strategy managed by MFG Asset Management ('Strategy'), and has been prepared for general informational purposes only. No distribution of this material will be made in any jurisdiction where such distribution is not authorised or is unlawful. This material does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such an offer or solicitation is unlawful or not authorized or in which the person making such offer or solicitation is not qualified to do so. This material is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice. The investment program of the Strategy presented herein is speculative and may involve a high degree of risk. The Strategy is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Strategy may lack diversification, which can increase the risk of loss to investors. The Strategy's performance may be volatile. In making an investment decision, you must rely on your own examination of any offering documents relating to the Strategy. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of MFG Asset Management. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed such statements. Additionally, this material may contain "forward-looking statements". Actual events or results or the actual performance of the Strategy may differ materially from those reflected or contemplated in such forward-looking statements. No representation or warranty, express or implied, is made with respect to the correctness, accuracy, reasonableness or completeness of any of the information contained in this material. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. MFG Asset Management will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this material including trading losses, loss of opportunity or incidental or punitive damages. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any licence or right to use any trademark displayed without the written permission of the owner.