



RESEARCHIP

Qualitative Fund Research

Magellan Infrastructure Fund

10 January 2022

 RESEARCHIP Rating



The views and opinions in this document are considered valid from one year from the date published.

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Meet the Manager

Magellan was formed in 2006 to generate attractive returns for clients by investing in global equities and global listed infrastructure while protecting their capital. Magellan was founded by Hamish Douglass and Chris Mackay and has offices in Australia, New Zealand and the US. They are a wholly owned subsidiary of Magellan Financial Group, which is one of the top-100 stocks by market value on the ASX. Further information on the Manager can be found in its [online profile](#).

Magellan's [investment philosophy](#) which underpins the investment process, which is consistent across all their equity strategies. Magellan perceives outstanding companies to be those that are able to sustainably exploit competitive advantages in order to continually earn returns on capital that are materially in excess of their cost of capital.

Magellan is a signatory to the United Nations Principles of [Responsible Investment](#) (UNPRI). They also believe that ESG practices can have a material impact, whether for better or worse, on a company's long term sustainability and prosperity.

Magellan manages the following funds:

- Magellan Global Fund
- Magellan Global Fund (Hedged)
- Magellan High Conviction Fund
- [Magellan Infrastructure Fund](#)
- Magellan Infrastructure Fund (Unhedged)
- Magellan Sustainable Fund
- Magellan FuturePay
- MFG Core International
- MFG Core ESG
- MFG Core Infrastructure



A selection of the funds can be accessed in listed form or unlisted. A full list of the funds can be found [here](#).

These funds are managed by a team of 15 portfolio managers and a further 19 investment professionals, who also have research responsibilities. The Manager has provided [individual bios for the team](#). For the number and type of funds being managed, the team is adequately resourced and governed, with well tenured executives and portfolio managers.



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Key Takeouts

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Quantitative Tear Sheet - <https://platform.research-ip.com/funds/65099077>

Platform is FREE to access via registration – performance data updated monthly.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

For important Fund Facts view the [RIPPL Effect](#)

The Fund

Fund Details	Magellan Infrastructure Fund
Investment Objectives	The fund has two investment objectives: <ul style="list-style-type: none"> - To achieve attractive risk adjusted returns over the medium to long-term (CPI+5% through the economic cycle), - To reduce the risk of permanent capital loss.
Benchmark	S&P Global Infrastructure Index A\$ Hedged Net Total Return
Alpha Objective	CPI + 5% p.a. over a business cycle.
Management Fee	Management Fee of 1.05% p.a. incl GST
Performance Fee	Performance fee - 10% of excess return (incl GST) Hurdle – the higher of the Index Relative Hurdle (S&P Global Infrastructure Index A\$ Hedged Net Total Return) and the Absolute Return Hurdle (the yield of 10-year Australian Government Bonds). Net/Gross – performance fee calculated on Net out performance High Water Mark (HWM) - Yes – perpetual HWM Frequency – calculated daily, paid six monthly Maximum limit – subject to the high water mark
Estimate of Total Fund Charges	1.05% p.a. (incl GST) as at 30 June 2021.

The Magellan Infrastructure Fund (“the Fund”) primarily invests in the securities of companies listed on stock exchanges around the world, but will also have some exposure to cash & cash equivalents. The Fund can use foreign exchange contracts to facilitate settlement of stock purchases and to mitigate currency risk on specific investments within the portfolio.

Factor	Lower Limit	Upper Limit	Reference
Number of stocks held	20	40	35
Maximum weighting of individual stock (at purchase)	0%	10%	
Cash	0%	20%	
Regulated Utilities	0%	60%	
Airports	0%	30%	

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Toll Roads	0%	30%	
Rail	0%	15%	
Emerging Markets	0%	20%	
Single regulatory regime	0%	15%	

The Magellan Infrastructure Fund has been designed to provide investors with efficient access to the infrastructure asset class, while protecting capital in adverse markets.

The infrastructure asset class, when appropriately defined, is characterised by monopoly-like assets that face reliable demand and enjoy predictable cashflows. As a result, Magellan has established proprietary classification criteria to appropriately categorise securities as investment grade infrastructure, and thus eligible for inclusion in its portfolios or otherwise. Potential investments that meet these criteria are expected to achieve strong underlying financial performance over medium- to long-term timeframes, which should translate into reliable, inflation-linked investment returns.

Magellan believes that an appropriately structured portfolio of 20 to 40 investments can provide sufficient diversification to ensure that investors are not overly correlated to any single company, industry-specific or macroeconomic risk.

Using this Fund

The Fund is a long only global listed infrastructure product and as such will generally sit within the growth component of a diversified portfolio, more specifically typically within the International Equity allocation.

Given the concentrated portfolio of around 20-40 stocks, there is a greater chance of volatility in the short term. Investors should be aware that this type of Fund may experience significant periods of negative returns. Research IP believes an investor should have a minimum investment time horizon greater than seven years, preferably longer.

Special consideration should be given to currency given the Fund is invested in global markets. The Fund is managed in Australian dollars.

What the Manager Says?

Insight	Manager view	Research IP opinion
<p>Who is accountable for managing the fund?</p> <p>Is the investment teams work history relevant to the funds they manage?</p>	<p>Gerald Stack, Lead Portfolio Manager has ultimate discretion.</p> <p>Gerald Stack is Head of Investments and Lead Portfolio Manager, and has more than 33 years of investment experience. Gerald Stack joined Magellan Asset Management Limited (“Magellan”) in 2007 and is Head of Investments and leads the team responsible for managing Magellan’s infrastructure portfolios and providing research coverage of companies within the infrastructure, transport and industrials sector. Prior to joining Magellan, Gerald was a director of Capital Partners (now known as CP2) where he was head of securities research and a member of the management and investment committees. Gerald has extensive experience in the analysis and investment management of listed and unlisted debt, equity and hybrid assets on a global basis. Gerald holds a Bachelor of Economics and a Master of Business Administration, both from Sydney University, and is a Chartered Accountant. The Infrastructure investment team comprises five portfolio managers and two Infrastructure investment analysts. Both portfolio managers and analysts are expected to be global industry and company experts for their respective coverage.</p> <p>The Infrastructure investment team is further supported by the other twelve members of the Investment Committee. The Infrastructure investment team is also able to draw on resources of the broader Magellan Investment team. The broader Magellan Investment team is organised along sector lines and is responsible for modelling and preparing research reports. One of our core strengths is the breadth and depth of our sector coverage, with 34 experienced investment professionals.</p>	<p>Stack is ultimately responsible for the Fund. Stack is considered to have a strong investment background, which has been focused around infrastructure assets.</p> <p>Stack is supported by a team four portfolio managers (PM) and three analysts. All infrastructure team personnel have stock responsibilities. This is complimented with the ability to leverage some of the broader equities analyst team. Research IP believes that this is one of the larger global infrastructure teams headquartered in Australia.</p> <p>Research IP considers key person risk in Stack to be relatively high, having significant responsibility as Head of Investments, Head of Infrastructure, and Portfolio Manager. Stack also chairs Magellan’s Investment Committee. Noting there is assistance and oversight from other members of the investment team. Stack is also a very key component of the Fund’s marketing drive and message, with as much as 20% of his time allocated to marketing.</p> <p>The team covers the world in a matrix view, e.g. European utilities. Each is covered by has at least one member of the team, although US utilities has three. Over time Magellan look to move coverage around roughly every two years. Infrastructure research is considered relatively straight forward, so the rotation keeps a fresh set of eyes on each asset. Research IP believes the research load, across the well resourced investment team, to be commensurate with global competitors.</p> <p>The team has been relatively settled over the past 3 years, with one departure and two new hires. The average team tenure is 9 years, while the team’s average experience is 20 years. Across the broader investment team turnover has been higher with two departures and nine new hires in the last 3 years. Setting aside business restructures, tenure is supported by the equity ownership structure in place which Research IP notes has become increasingly material through business growth.</p>

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		<p>Magellan comprises a team of over 130 staff, a large proportion of this supports the 34 strong investment team. This ensures appropriate attention is being given to the operational aspects of investing and assists to keep investment personnel focused.</p>
<p>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</p>	<p>Yes Yes</p>	<p>Research IP believes that ‘eating your own pudding’ should be an aspect potential investors consider, when deciding to invest in any financial product.</p> <p>Importantly, all investment personnel should pay the same fees as other investors, enhancing the alignment of interest with an investor’s experience.</p> <p>As one of the first employees, Stack also has a sizable equity ownership in the ASX listed Magellan Financial Group (MFG). Most of the Magellan team are also shareholders in MFG.</p>
<p>Why would you allocate to this fund?</p>	<p>The Fund has a disciplined approach to investing and focuses on “pure” infrastructure assets with no material exposure to commodity prices and sovereign risks. There are number of merits of investing in this fund as follows:</p> <p>The Fund has outperformed the benchmark and peers on numerous time frames. Volatility has been similar to the peer group average and benchmark.</p> <p>The investment team of the Fund is highly experienced with a solid track record in infrastructure assets and investment management.</p> <p>The Fund has produced consistent growth in FUM over a very long period.</p>	<p>The Manager provides investors with an opportunity to gain exposure to a somewhat concentrated portfolio of listed global infrastructure companies (holdings have ranged between 28 and 33 stocks over the last 5 years), with a focus on infrastructure themes rather than benchmark weights and sectors. The focus on investments where demand is predictable and cashflows are reliable, results in a portfolio roughly evenly distributed across utilities and infrastructure assets, with cash up to 20%. Despite the benchmark agnostic approach Research IP believes the portfolio remains diversified. This is achieved by employing risk parameters around the maximum size of positions (10% at purchase) and aggregated risk limits to specific sectors.</p> <p>Investors should expect the cash exposure to move around its range of 0-20%. The cash weighting of the portfolio is typically a residual of security selection, portfolio movements (e.g. security entry, exits), and valuations. Research IP notes that the flexible allocation to cash is used and the fund will not remain fully invested through all market cycles. At times the Fund has held 20% cash, while also being close to fully invested.</p> <p>A key differentiator of the strategy is its deep research on companies, which sometimes means missing short term opportunities while getting greater comfort</p>

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		<p>with the long term prospects of the business. The portfolio exhibits low correlation with global equities markets and has demonstrated strong downside capture metrics relative to the Global Infrastructure Index.</p> <p>Through COVID-19 in 2020 Magellan managed the portfolio, taking risk off where the industry no longer made sense or had undergone significant change, in particular the exposure to airports was reduced and cash increased. This was seen as a grey swan event, a portfolio construction issue rather than at the individual stock level, but there are also less levers to pull in this type of fund. This saw reviews on the fundamentals of airports, ports, and rail. Regulated sectors such as energy transmission, gas pipelines, and water infrastructure remained stable into 2021. To illustrate the dynamic approach used by the Manager, cash increased from 3% to over 15% in the period from December 2019 to March 2020. Remaining defensively positioned is considered important to preserve capital in uncertain times. Through 2021 cash was deployed back into infrastructure assets, predominantly within integrated power and transmission/distribution sectors.</p> <p>The Magellan Infrastructure offering is differentiated in its focus on investing in reliable earnings streams, rather than looking at the physical asset. It tends to avoid areas where there is competition, commodity price movements or sovereign risk and will not invest in energy infrastructure, or emerging countries like China or Russia.</p>
<p>What are key factors in the buying and selling decisions of the Fund?</p>	<p>The investable infrastructure universe is strictly defined and identified through in-house scrutiny and screening. The fund employs an active, high conviction, bottom-up stock selection approach with the view to build a concentrated portfolio of “pure” infrastructure assets.</p> <p>The investable universe for listed infrastructure essentially breaks down into two key sectors: regulated utilities; and infrastructure assets.</p> <p>Screening</p> <p>Magellan focuses its screening and analysis on the assessment of intrinsic value. It is the</p>	<p>The Manager draws from three key sources in developing its buy and sell decisions. Bottom-up stock analysis and industry research, both broad and detailed macroeconomic insights, and a rigorous portfolio construction and risk discipline. Research IP highlights this framework is differentiated by its integration of macro views and willingness to hold cash.</p> <p>The Fund employs a long-term investment approach focused on applying a rigorous fundamental bottom-up approach to provide “purer” exposure to infrastructure-like businesses than represented by market indices. It also seeks to identify mispriced</p>

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	<p>fund's experience that a disciplined assessment of intrinsic value is the best filter for identifying investment opportunity.</p> <p>Research</p> <p>Magellan's Infrastructure team uses a standard WACC discounted cash flow approach with forecasts constructed over a long-term framework (typically more than 30 years). This provides a sense of intrinsic value that is relatively robust. The difference between intrinsic value and market value is a key focus of the team's research priorities. Opportunities that represent situations where investors appear to be compensated attractively for the underlying level of risk assumed are a high priority for Magellan's research.</p> <p>The portfolio construction process is underpinned by valuation, formal risk controls, factor risk management and management of stock qualitative risks. All stocks that have been approved by the Investment Committee can be included in the portfolio, and the portfolio can hold between 20 and 40 securities.</p> <p>The target portfolio weight for each stock is determined using the relative intrinsic value premiums assessed by the investment team. The stocks are ranked in order of preference under three different value measurements:</p> <ul style="list-style-type: none"> • Premium of the assessed intrinsic value of equity to the market value of equity. • Premium of the assessed intrinsic enterprise value (or asset value) to the market enterprise value. • Total shareholder return (TSR) measured over five years. <p>Three separate portfolio weights are calculated for each security, and the result is taken into consideration by the Lead Portfolio Manager. Factors such as macroeconomic insights, permanent and dynamic risk controls, agency risk and correlations of the factor risks are also incorporated in the portfolio construction process. Under normal market conditions, the portfolio will be diversified among most</p>	<p>securities to deliver superior risk-adjusted returns.</p> <p>Magellan's filtered investment universe is comprised of stocks that:</p> <ul style="list-style-type: none"> • Generate reliable income streams. • Benefit from inflation protection. • Have an appropriate capital structure. <p>The bottom-up process identifies a companies' sustainable competitive advantages, predictability of future cash flows, and risks. These will contribute to the Manager's assessment of valuation anomalies, assisting in determining if a company has potential to be included in the portfolio. A quality and risk assessment is integrated into the process where the team assess agency, financial, business, environmental & social, asset development, regulatory, sovereign and catalyst risks. Notably, ESG factors are also considered at this stage. Magellan notes that Agency Risk (governance) is considered 3x more important than the other seven risk factors. Research IP notes the key to this is the investment team's interpretation of the data and assumptions that are overlaid in modelling a company.</p> <p>The Manager's macro insights are derived from an internal macro team that is supplemented with formal external advisers including ex-Fed Kevin Warsh and ex-Acting Director of the CIA, Michael Morrell. This assists the Manager in understanding the likelihood of event risks, inflation, market dislocations, and country and regional growth opportunities. The output of the macroeconomic view is to assist in identifying trends and event risk management.</p> <p>Former Chair of the Federal Reserve, Janet Yellen, left her position on the advisory panel due to her appointment as US Secretary of the Treasury in early 2021. Advisory panels are likely to be a little fluid, that is, changes are expected to occur relatively frequently. Research IP believes change in the advisory panel can be positive and allows the panel to remain relevant for the time. Too much turnover can be distracting and potentially reduce the contribution the advisory panel brings to the investment process.</p>
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	<p>sub-sectors of the infrastructure and utility universe.</p> <p>Magellan will sell existing holdings when:</p> <ul style="list-style-type: none"> • Superior investment opportunities arise elsewhere (the investment is sold on the basis of opportunity cost); • Magellan has misjudged the business economics of a company, or the company has not performed to expectations. In particular, Magellan will sell holdings if agency issues become evident to the extent that the company no longer meets its quality requirements; • There is share price appreciation (i.e. a position has become so large in the portfolio that it is prudent to sell down for risk management purposes). <p>Removing a stock from the strategy occurs relatively infrequently and is generally the result of either the company changing its strategic direction or of it becoming unacceptably illiquid from a trading perspective.</p>	<p>Research IP believes the insights Stack and his team have been able to bring have differentiated the portfolio from peers. This does not guarantee better outcomes, but an edge is considered potentially useful when building out a portfolio.</p> <p>Lastly, portfolio construction and risk management are based around permanent and dynamic controls. Some controls are identified in the stock limitations of the portfolio, e.g. maximum exposure to a single stock. Research IP notes some controls are hard which means they cannot be breached, while others are soft allowing the Manager a little discretion when hitting upper or lower limits, typically with approval from governance and compliance teams. The dynamic nature allows the Manager to incorporate macro and fundamental changes to respond to what are dynamic market conditions. Research IP believes this is in line with peers.</p> <p>Ultimately valuation versus actual price is a primary determinant in buying and selling securities. This also drives most trading activity around building and reducing exposures, rather than a complete exit.</p>
<p>What are the key drivers of the Fund's performance?</p>	<p>The Fund should outperform commonly used infrastructure indices during down markets and may underperform in rising markets. The key objective of the fund is to achieve attractive risk-adjusted returns via risk reduction.</p>	<p>Research IP notes that portfolio performance can be somewhat different to peers and the benchmark over periods less than 12 months. This is largely due to the Manager's process and investment philosophy, looking for quality companies with long term sustainable regulated cashflows, and the active cash position. The Fund's performance from three out to ten years has outperformed the benchmark (as at 30 September 2021). Relative performance against the peer group has been below the average over periods up to 5 years, but above the peer group average for 10 years. The focus on quality and active risk management leads to an attractive return profile for investors over the longer term. The performance history of the Fund is available via Research IP tear sheets and on the Manager's website.</p>
<p>What are the risks of investing in this Fund?</p>	<p>The Fund seeks to avoid companies that exhibit material exposure to (effective) competition, commodity prices, and sovereign risk. This results in the strategy:</p>	<p>The fund has the ability to hold up to 20% in cash. Research IP notes the fund cash levels can vary and the Manager has used the range. Cash is not typically an asset allocation decision, it is typically a result of trading activity, including entering and exiting securities in the portfolio. Holding cash can be both a drag and contributor to</p>

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	<ul style="list-style-type: none"> Exhibiting less sensitivity to the economic cycle and commodity prices than peers and market indices. Having no exposure to those emerging markets and other jurisdictions (such as China) where the regulatory process is opaque or unsatisfactory. <p>Therefore, the economic cycle, commodity price cycles and the difference in performance of infrastructure securities across various jurisdictions will all have a bearing on the relative returns of the strategy.</p>	<p>portfolio performance. The risk performance outcomes for the 5 years to 30 September 2021 demonstrate less drawdown risk compared to the MSCI World Index (A\$ hedged), though less upside capture, and a beta of 0.6.</p> <p>The Fund also incorporates an Environmental, Social and Governance (ESG) overlay into its decision-making process. The ESG credentials of the Manager are espoused from the executive level down. Research IP believes the Manager has a strong belief in the positive outcomes of harnessing ESG principles. However, the Manager is looking to generate performance, accordingly the Fund's ESG framework is managed on the basis that the ESG issues do not pose a material threat to the investment fundamentals.</p>
<p>On what basis are the fees charged justified?</p>	<p>The Fund pays a management fee of 1.05% per annum of the Fund's Net Asset Value (before fees) ("NAV") to Magellan for managing the assets of the Fund and overseeing the operations of the Fund. The management fees help cover all fees, costs, charges, expenses and outgoings that are incurred in connection with the Fund (such as administration and accounting costs, registry fees, audit and tax fees, and investor reporting expenses).</p> <p>The fee structure balances the compensation paid to the manager for the services offered above with a performance fee structured to align with investors and their return outcomes.</p>	<p>Research IP believes the Manager is transparent from a fees perspective, noting the management fee (including administration fee) of 1.05% (GST inclusive, plus performance fee) is disclosed in the Product Disclosure Statement (PDS) and peer fee information is available on the Research IP tools page.</p> <p>Research IP observes that the manager's basic fee is in line with the sector peer relevant funds. Performance fees are also charged but have a market relevant benchmark as well as an absolute return hurdle they need to overcome. This is also enhanced by using a high watermark.</p> <p>The total fee load could be quite high, and is linked to peer average performance for investors. From a fee perspective having a margin of return higher than the market return hurdle would be preferred, in this case though Research IP notes the absolute return hurdle provides compensation and prevents performance fees being paid on a negative year of performance. Over the last ten years the total ICR has ranged from 1.07% in recent years when no performance fee was paid to 1.63% in 2013, while Research IP estimates the typical total fee load would be in the region of 1.25%.</p> <p>The buy/sell spread on this Fund is also low relative to peers, although this may vary from time to time. It is important that managers set the spreads at the correct</p>

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		<p>level so subscriptions and redemptions do not impact existing unit holders.</p> <p>Research IP notes that the base fee is in line with peer funds and while better structures can be applied in an individual account, the performance fee structure is best in class for a pooled fund.</p>
<p>Describe the quality of the organisational and investment governance processes?</p>	<p>Pre-trade compliance checks occur automatically within the Order Management System (OMS) and run at multiple times throughout the day.</p> <p>All compliance rules are coded into the system and maintained by the Risk and Compliance team, who are completely segregated from the Trading and Investment Operations teams.</p> <p>The OMS retains a full audit history when a compliance rule is created, triggered or edited. The OMS generates and distributes pre-trade and compliance reports to the Trading, Investment Operations, Risk and Compliance teams and Portfolio Managers. These reports provide transparency on trading activity and are used to alert teams of erroneous trades or breaches of investment guidelines on a pre-trade basis.</p> <p>Post-trade compliance monitoring oversight resides with the Risk and Compliance team. Daily exception reports are generated by the OMS and independently by the external administrator and are reviewed by a member of the Risk and Compliance team.</p> <p>Any breaches of investment guidelines, portfolio risk controls or trade errors are reported to the Portfolio Manager, Trading team and the Chief Compliance Officer (CCO). Any trade errors or breaches are rectified as soon as possible following detection and are recorded in the Breach and Incident Register.</p> <p>Magellan has established a functional organisational structure to support its risk management framework. Magellan's Risk and Compliance team, led by Marcia Venegas, CCO, is responsible for operational risk management, in conjunction with each business unit head who is responsible for managing risks identified within their respective areas of responsibility.</p>	<p>Research IP believes that Magellan's risk management processes are in line with global industry best practices. Risk monitoring and management is integrated within the investment process and reported via separated risk and compliance teams.</p> <p>Mandate compliance is tested both pre and post trade, which Research IP believes should be industry standard practice for all investment funds, given the tools and ability to import mandate guidelines and parameters to manage portfolio activity. Any breach of mandate guidelines is reported through the Compliance team. Importantly the Compliance and Risk team can take the matter directly to the board.</p> <p>Global fund management businesses typically have separated investment and executive leadership roles. This provides full separation of risk and compliance reporting through to the board. Magellan operates two governance structures for the asset management business and the listed entity. Magellan Asset Management (MAM) ultimately forms part of the ASX listed MFG, of which Hamish Douglass is the Chairman of the Board. There is potential conflict in this structure, but it has been somewhat mitigated over time with the addition of independent directors and Douglass relinquishing day to day management. Robert Fraser chairs the MAM board. Research IP notes the departure of the CEO in November 2021 but believes the Manager's operational depth is more than sufficient to remain focused on investors' assets.</p> <p>Research IP believes the risk and compliance team is well resourced for the number of strategies the manager operates. The tools and frameworks employed, including the ability to influence the design of the tools are viewed positively.</p>

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	<p>Magellan’s Risk and Compliance team is responsible for the design, implementation, and maintenance of the risk management and compliance framework, as well as any associated activities, including, but not limited to, controls assurance. Magellan’s Risk and Compliance team consists of 8 experienced staff with an average of 13 years industry experience.</p> <p>Magellan’s Risk and Compliance staff are independent of all other business functions and may report matters directly to the Board without reference to any other party.</p>	
<p>Describe the Manager’s ESG, Corporate Sustainability policies and engagement.</p>	<p>1. Policy: Our ESG policy requires analysts to consider all risks (including ESG risks) material to future cash flows and valuation.</p> <p>2. Process: Our assessment of a company's quality requires assessment of "Business Risks", which include all material risks including environmental, social and governance risks. An impact score is derived by consideration of Risk Exposure and Impact, for each individual material risk, which are then integrated into an overall Business Risk score. Analysts assess over 30 E, S and G risks for materiality, as part of this process. Business risk scores are approved at Investment Committee (the senior members of the Investment Team, including the CIO and DCIO). Material ESG risks are continuously monitored by analysts. Analysts utilize MSCI ESG Manager, interactions with companies, experts and their own expertise to form their view.</p> <p>3. Portfolio Construction: The Business Risk score above is incorporated into an overall Quality Score (incl. Economic Moat & Reinvestment Potential). The PM then considers the Quality Score vs value and therefore influences position sizing. All else equal, a higher Quality Score would result in a larger portfolio position and vice versa.</p> <p>4. Engagement: we actively engage with portfolio companies on material ESG risks (as identified in the business risk assessment).</p> <p>The third-party data/tools to integrate ESG factors into the Fund’s investment process are:</p> <ul style="list-style-type: none"> • MSCI ESG Manager – Used by Analysts for their consideration of controversies, 	<p>Research IP notes the Manager’s primary obligation to investors is to deliver strong investment returns in a risk managed framework. Investors must be aware the Manager will apply its responsible investment overlay and ESG policies and guidelines to the extent they align with the Fund’s investment philosophy and performance objectives.</p> <p>Research IP believes outsourcing of ESG to the likes of Sustainalytics, MSCI ESG, or Refintiv ESG is the basic starting point of ESG integration. Research IP believes proprietary overlays and adding additional sources of differentiated inputs are key to lifting the bar from a minimalist approach to integrating ESG.</p> <p>Research IP notes the Manager utilises a number of sources of data to assist in managing the governance, while employing a screened approach to environmental and social issues. The relevant document relating to ESG, Proxy Voting, and Corporate Governance Principles can be found on the Manager’s website.</p> <p>Research IP observes Manager’s ESG framework from an Environmental perspective focuses on Climate Change, Natural Resource Consumption, and Waste Management. Social aspects look to Labour and Human Rights, Health and Safety, Poverty, and Other aspects including gambling, animal welfare. Governance is considered the strongest arm of ESG, and caters to Shareholder Rights, Board Composition. To this end, Research IP believes Magellan integrates ESG principles into the investment process, but also its own company. This is evidenced in the structure of the MAM and MFG Boards.</p>

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	<p>product involvement and ESG risk assessments. Analysts use their expertise to determine the materiality of any controversies or ESG risk assessment. Analysts do not directly use MSCI's risk assessments in their determination of risk for the various ESG factors.</p> <ul style="list-style-type: none"> • Carbon Disclosure Project – Magellan is a signatory and occasionally access their detailed assessments of companies' climate risk responses. • Company resources – Magellan has excellent access to the companies in its universe and regularly engages on a variety of issues, including ESG matters. • Industry experts – Magellan engages several expert firms, including GLG, where Analysts can speak with identified experts on all investment related matters, including ESG, as required. <p>Magellan has a firm-wide exclusion policy for companies involved in the production of tobacco, companies engaged in "high roller" casino gaming, or the production of controversial weapons from its investible universe. Most significantly in the case of the infrastructure strategies, the firm excludes from its investible universe companies with commodity-like economics. This has the effect of excluding exposure to materials and most energy companies, which have significant exposure to environmental risks, particularly climate risks.</p> <p>As a signatory to the PRI, Magellan submitted its eighth Transparency Report and received the following scores:</p> <ul style="list-style-type: none"> • Strategy & Governance: A • Listed Equity – Incorporation: A+ • Listed Equity – Active Ownership: A <p>A CSR Report is included in MFG's Annual Report. MFG's 2021 Annual Report is available from: MFG Limited Annual Report 2021 (magellangroup.com.au)</p>	<p>Magellan have an active Proxy Voting ethos. Research IP has viewed evidence of the Manager's extensive proxy voting record, which highlights a proportion (~7%) of votes were contentious (against management), though this was around 3% over the last couple of years.</p> <p>Magellan is a signatory to the "Principles for Responsible Investment" established by the United Nations ('UNPRI') which aims to provide a consistent framework for reviewing business practices across industries and companies. Magellan reports on its ESG investment process framework and its controls to the UNPRI annually and has received their top rating.</p> <p>Investors should be aware that ESG and the United Nations Principles of Responsible Investing (UNPRI) are relatively loose and that ESG integration has a broad range of interpretations.</p>
<p>Is there alignment with the interests of investors through ownership of the</p>	<p>Broadly Magellan's remuneration arrangements for employees comprise the following components:</p>	<p>Research IP observes that to preserve capital and generate a long-term positive return for investors, the Manager must remain operational.</p>

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<p>Manager and/or remuneration of the investment team?</p>	<ul style="list-style-type: none"> • A fixed remuneration amount (inclusive of retirement benefits). • A variable incentive which is determined annually and is subject to some level of deferred payment. • An offer of voluntary participation in the Magellan Group's Share Purchase Plan (SPP), to encourage long term ownership in MFG. <p>The compensation of the Lead Portfolio Manager is comprised of a base salary and a variable incentive that is based on the performance of the investment strategies under his control over a three-year period. Variable incentives earned are not paid up front but rather payment is deferred over the subsequent three financial years.</p> <p>Short to medium term incentives:</p> <p>With the exception of the CIO, Head of Investments and certain Portfolio Managers, the variable incentive amount is discretionary and is determined by reference to an employee's individual performance and contribution, and the overall performance of the Group. Variable remuneration is not determined on a formulaic basis but is an outcome of an overall performance appraisal process. Variable remuneration may be in the range of 0-100% of the fixed remuneration amount or higher in exceptional circumstances.</p> <p>Variable incentives are paid partly as a current year cash bonus and partly as a conditional deferred cash bonus amount over periods up to three years.</p> <p>Long term incentives:</p> <p>The SPP provides financial assistance to all staff investing in MFG's shares. It is designed to more closely align the interests of the company's staff with those of its clients/investors. Staff that participate are subsequently fully exposed to movements in MFG's share price, which over the long term, will primarily reflect the performance of funds managed by Magellan.</p> <p>Magellan believes the SPP is a unique, transparent and essential program, which improves staff retention and aligns the</p>	<p>The remuneration structures of fixed components, variable component, and potential share ownership are considered to be in line with typical global best practices around staff compensation.</p> <p>Vesting of the variable components is considered to be best practice, ensuring sugar hits do not become attractive, to the investor's detriment. Research IP believes a stronger alignment with investors could be made with cash incentives held in the fund structured for the vesting period, preferably in line with the proposed fund holding period. This strongly aligns the long-term remuneration of investment personnel to the strategy.</p> <p>While profitability may increase due to fund performance and inflows this does not necessarily have a 1:1 relationship with the variable component. Notably investment in MAM funds of Directors and key Executives is published, highlighting the transparency of the Manager. Variable compensation is also reported via MFG's annual reports.</p> <p>Research IP believes there is a strong alignment and incentives in place to align investment teams with investors' interests, both at the fund level and broader MFG group.</p> <p>Research IP recognises this is a difficult balance given the overall success of MFG since its inception and the large equity ownership of many staff.</p>
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	<p>long-term interests of the company's staff with those of its clients/investors through a sense of ownership.</p> <p>Magellan is a wholly owned subsidiary of MFG which is listed on the Australian Securities Exchange (ASX: MFG). Approximately 81% of staff hold equity in MFG. This equity holding strongly aligns staff and investor interests while encouraging a focus on long-term, rather than short-term, decision making.</p>	
<p>Comment on the assets under management, flow and capacity?</p>	<p>The overall FUM in the Select Infrastructure strategy as at 30 September 2021 was A\$10,102.41 million.</p> <p>The details of recent FUM changes are available below: https://www.magellangroup.com.au/shareholder-centre/reports-asx-releases/</p> <p>Please refer to below for strategies the firm is responsible for: https://www.magellangroup.com.au/funds/</p> <p>The capacity of the Select Infrastructure strategy is more than US\$8.5 billion.</p>	<p>The funds under management (FUM) is manageable with over A\$10B (up from A\$8.5B at 30 September 2020) in the strategy, while managing over A\$19B in total infrastructure assets. This Manager still maintains strong risk controls in place, as position changes can be meaningful in dollar terms, due to the regional exposure including Australia and New Zealand assets. Research IP believes the Manager has a strong understanding of the portfolio and ramification of changes to the portfolio.</p> <p>While not directly related to this Fund, the business lost a key client at the end of 2021 which made up approximately 12% of the Group's current annual revenues.</p>

The RIPPL Effect

For important Fund Facts, please view the **RIPPL Effect** report:




Magellan Infrastructure
Fund

RIPPL Effect

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- ❖ equity, bond and alternative asset specialists
- ❖ portfolio managers
- ❖ asset allocation analysts
- ❖ and ratings specialists.

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