Market and Fund Performance commentary

Equity markets saw a small increase during the third quarter of 2026, with global equities (in AUD terms) up 1.2%. The listed infrastructure sector was weak, with the FTSE Global Core Infrastructure 50/50 Index (AUD) down 7.0%. The Portfolio saw a small underperformance relative to the infrastructure sector, being down 7.3%* for the quarter (in AUD terms).

Global central banks adopted a firmer and, in several cases, more hawkish policy stance during the September quarter as the energy shock arising from ongoing Middle East tensions kept inflation elevated, while economic activity proved more resilient than anticipated. The U.S. Federal Reserve increased its target rate by 25 basis points to 3.75%-4.00%, its first rate hike in more than three years. Similarly, the European Central Bank raised its deposit rate by 25 basis points to 2.50%, citing persistent inflationary pressures linked to higher energy costs.

More importantly, for the infrastructure sector, "real" interest rates continued to rise (being the difference between the nominal interest rate level and the expected inflation level). The infrastructure sector is generally able to offset increases in interest rates that are caused by higher inflation levels, as many infrastructure assets have strong natural inflation linkages (and this characteristic is a focus of our investment process). Calendar year 2022 was a good example of this, when the infrastructure sector strongly out-performed global equities at a time of rapidly increasing inflation, and our strategy performed well versus the infrastructure sector.

Movements in real rates generally have a larger impact on infrastructure valuations than movements in inflation, as there are less offsets for infrastructure assets from changes in these rates. Real rates in the US, as measured by the US 10Y TIPS, increased during the quarter from 2.20% to 2.93%, which is now a historically high level. In our opinion, whilst increasing real rates have been a headwind for the sector this quarter, and indeed in recent years, we are optimistic that looking forward this is more likely to become a tailwind.

During the quarter UK regulated stocks were mainly strong, including our water positions of Severn Trent and United Utilities and Scottish electric utility SSE Plc. US utilities were generally weak, but the portfolio's overweight of water utilities and underweight electric utilities resulted in positive relative performance.

The largest detractors during the period were European infrastructure companies. Ferrovial was the largest individual detractor as the shares retraced some of their earlier gains, partially as a result of a 'successful' tollroad tender in Tennessee that the market is concerned they overpaid for, while Flughafen Zurich and Vinci also weighed on returns. Cellnex continued to detract as European tower operators faced ongoing sector headwinds amid a higher bond yield environment.

Following the weakness this quarter, we now see valuations as being at a small discount to historical averages. Earnings growth in the sector remains at a historically strong level, and combined with divergence in valuations, we see some strong individual infrastructure opportunities.

*All returns are net of fees. Past performance is not a reliable indicator of future return

Portfolio discussion

As at 30 September 2026, the Fund held 27 high-quality infrastructure securities across 9 countries.

The largest individual country exposure remains the United States of America at (42%), which increased over the quarter. Our next largest were the UK (19%) and Spain (15%), which both decreased over the quarter.

From a sector perspective, our largest holding continued to be in regulated assets (51%), which was lower over the quarter. Our holding of contracted assets (25%) had increased and transportation concessions (21%), such as airport and toll-road assets, had decreased.

The investment team is continually looking on a bottom-up basis for attractive investment opportunities to add to the portfolio. We expect this will result in a relatively low level of portfolio turnover as individual stocks fluctuate between being oversold or overbought.

Selected infrastructure news items

- In an eventful quarter for Enbridge Inc, three major deals, an equity raise to fund growth, and a CEO change were announced. The most prominent was the US$2.55 billion acquisition of Tallgrass's liquids business, which is mostly anchored by a 75% ownership interest in Pony Express Pipeline, a 1,050-mile line linking Rockies production to Cushing. The deal also included a 51% stake in Powder River Gateway and ~8.4 million barrels of storage capacity. Enbridge noted they expect the deal to be accretive to DCF per share in the first full year. The second deal was the US$600m Salt Creek Midstream acquisition made up of the Orla and Wink North crude gathering systems plus a 50% interest in the Delaware Crossing system for ~420,000 barrels per day of combined capacity. It creates a complete "wellhead-to-water" platform connecting Permian Basin crude to their Ingleside infrastructure (North America's largest crude export terminal). Both acquisitions are expected to close later in 2026. The third deal brought in a minority partner to fund growth with KKR and funds managed by Apollo committing to invest ~C$2.7 billion to fund expansions on the Westcoast gas system, with Enbridge retaining majority ownership and operational control. Alongside the Pony Express Pipeline deal, Enbridge launched a C$2.6bn equity offering to fund a combination of these acquisitions and future growth. Finally, during the quarter Greg Ebel announced his retirement as CEO at the end of 2026 with the Board appointing Gas Distribution and Storage head Michele Harradence who will take over on 1 January 2027.

- During the quarter, California's 2026 legislative session closed without any of the structural wildfire liability reform that the California Earthquake Authority (CEA) Study (mandated by SB 254) had recommended. Reports suggested that negotiations among legislators broke down on the issue of insurance subrogation, which Governor Newsom had proposed eliminating in his draft term sheet, but this was not supported by either the Assembly or Senate working groups. The lack of legislative progress resulted in fund holding PG&E, Edison International and fund holding Sempra shares falling 26%, 27% and 4% respectively across the final two days of the legislative session. In response to the legislative inaction, PG&E withdrew its 5-year plan, deferred $2 billion of capex in 2027 and launched a 12–18-month strategic review aimed at restoring investment-grade credit ratings, potentially by separating/ringfencing certain assets. There remains a possibility that Governor Newsom may call a special session for another attempt at passing wildfire liability reform legislation before his term ends.

- On 19th August, fund holding Ferrovial's DriveTN consortium, alongside Transurban and Tikehau Star Infra, was selected as the preferred bidder to deliver the US$9.2 billion I-24 Southeast Choice Lanes project in Nashville, Tennessee's first public-private partnership. The consortium also pledged US$24.8 billion in concession fees to Tennessee in exchange for rights to operate the concession for 50 years, which was more than three times the amount proposed by rival bidders, sparking concerns that the consortium had overpaid. Detailed financial disclosures will be released after financial close in the third quarter of 2027, which will provide the market with

more information to better assess the project economics and ultimately the level of potential value creation for the winning consortium.

Stock research and investment process

During the quarter we travelled to Lisbon and Madrid where we met with Energias de Portugal (EDP) management from across the business and undertook site visits across several of their infrastructure assets. EDP is a Portuguese-based integrated electric utility with regulated electric networks across Portugal, Spain and Brazil and a 71.4% ownership in separately listed renewable developer EDP Renewables (EDPR). EDPR has a 20.5 GW portfolio of installed renewable capacity primarily across the US and Europe.

Across the various meetings it was clear that there was strong data centres interest across Iberia, which has presented multiple opportunities for the company to benefit; there is a growing investment need across the Iberian network that was being supported by improved regulatory returns; and we gained increased confidence that the current environment for renewable development reflects an era of higher return and increased investment discipline. Taken together we believe that this positions the company well to deploy additional capital investments and grow earnings beyond the current business plan and what is priced in by the market.

Growing data center opportunity in Iberia

While data center growth has been concentrated in the US and continues to remain strong, development is accelerating across Europe, with interest in Spain and Portugal appearing particularly strong. The Iberian Peninsula is structurally advantaged due to its strategic location attracting a growing number of submarine cables, high renewable penetration and competitive electricity prices. Specifically in Portugal, large customer grid connection requests are over 40 GW, of which 9.2 GW has already been allocated and a further 4.6 GW moved to a fast-track allocation process. This compares to the country's current peak demand of ~10 GW. EDP estimates that electricity demand in Portugal will grow at 4.5% annually between through to 2035, with 60% coming from data centres.

Construction in Portugal has commenced on two sites: the 1.2 GW Start Campus in Sines and the 180 MW MERLIN campus at Castanheira do Ribatejo. We visited the MERLIN campus, which is located approximately 30 kilometres north-east of Lisbon. Phase 1 of the site connects to EDP's distribution network and will also be directly supplied by EDP's largest decentralized solar site that may reach up to 100 MW, while phase 2 will connect to Redes Energéticas Nacionais' (REN) electric transmission network. MERLIN management told us the site could be developed further, to as much as 900 MW. That would require additional generation, and MERLIN is already in discussions with EDP about supplying some of it.



MERLIN's Lisbon data centre campus: construction progress on phase 1 of the data centre campus as of 3 September 2026.

Beyond investments in networks and renewable supply, EDP is also exploring opportunities to provide data centers with powered land (a site with grid connection already secured) given the strong demand. We also visited the Carregado Combined Cycle Gas Turbine (CCGT) plant, which sits adjacent to the site of a decommissioned fuel-oil generation plant. EDP noted this could be an ideal location for another data center, given its access to transmission and generation in the area. EDP may have already bid the site into a transmission grid connection procurement dedicated to data center development, which would allow it to monetise later as powered land.

Networks: increased investments and improved returns

Across Iberia, utilities are seeing a significant need for investment in electricity networks to meet the needs of the system. EDP is expecting a 58% increase in investments between 2026-30, compared to the prior 5-year period, to enable broader electrification and as they anticipate a period of heavy asset replacement needs through to 2040. Management also sees the potential for incremental resiliency investments, such as undergrounding of lines, to come from an Electricity Networks Resilience Study requested by the Portuguese Government to be released by the end of the year following the severe storms earlier this year and the blackout in 2025.

In recognition of the increased investment needs, the Portuguese regulator raised the allowed return on rate base to 6.70%, which along with incentives provides EDP with sufficient remuneration to enable greater investment. The regulated return is also directly linked to the Portuguese 10-year government debt yield, so the returns are largely protected in the current high interest rate environment. While Spanish regulated returns on rate base are fixed for the 5-year regulatory period, they offer higher incentives and represent a smaller proportion of EDP's regulated rate base. Today, Iberian regulated returns relative to its long-term sovereign debt cost are among some of the most attractive in Europe – a stark contrast to earlier this decade where the regulatory returns were low and the sovereign risk profile was weak.

Positive renewable development outlook

After a few difficult years for renewable development, it was becoming clear that large developers are approaching investment decisions with a more disciplined approach than they were previously. In our meetings with EDPR and other renewable developers, it was clear that there continues to be plenty of good growth opportunities on the back of growing demand from large load customers in the US and incentives to accelerate the energy transition and energy independence in Europe. Despite these opportunities, there were no indications that EDP or other companies were

chasing volumes. Instead, the clear message was that management will remain focused on value creation and minimising execution risks.

We have seen recent evidence of this focus on value creation coming through for EDPR. The company has guided to 3.6 GW of projected secured at an average 285 basis points IRR spread over WACC, meaningfully above its 250 basis point target. Batteries, in particular represent some of the highest return opportunities in the space given falling costs and increased value when added to a renewable-heavy grid. We visited EDPR's largest solar plant in Europe, the 202 MWp Cerca Solar PV Park, which is planning to co-locate a 30 MW/120 MWh battery to overcome current curtailment challenges in Iberia.



EDPR's 202 MWp Cerca Solar PV Park.

Additionally, evidence of value creation is visible through EDPR's asset rotation program. EDPR's most recently announced asset rotation deal in the US for an 80% stake in a 384 MW solar and storage project to Ares Infrastructure is estimated to net a 40% gain on invested capital, above their 5-year average gain on invested capital. Management continues to work on other asset rotations that they feel confident will demonstrate their strong focus on value creation.

Finally, while higher long-term interest rates present a slight headwind for the sector, we remain comfortable with the protections in place. Specifically, management continues to ensure that at final investment decision (FID) financing is locked in with matching asset and liability duration, meaning that new projects reflect the latest cost of capital in the PPA price. Additionally, PPAs outside of the US typically have inflation-linked escalators, while in the US management build in wider buffers around their interest rate assumptions. That said, given higher interest rates result in lower valuations for long-term assets, we continue to test our assumptions.

Summary

With strong tailwinds across its core networks and renewable development segments, EDP appears to be in the early stages of a turnaround following a few challenging years. We see opportunities from the data centre growth in Iberia, additional capital investments in networks and stronger value creation opportunities at EDPR beyond what management has formally included in the current business plan and what is priced in by the market.

ESG integration

US electric utilities: revisiting emissions targets in a new era of demand

Over the past two years, a growing number of US electric utilities have stepped back from their near-term emission targets. Some have formally withdrawn their 2030 goals, others have quietly stopped referencing them in company reporting, and several have reframed their longer-term net zero commitments as aspirations rather than targets. For our US utility holdings, this shift reflects a genuine tension between decarbonisation and the need to deliver reliable, affordable power at a time of unprecedented demand growth.

Why targets are changing

The main driver is electricity demand. After two decades of broadly flat consumption, US utilities are now planning for significant growth from data centres, the onshoring of manufacturing and the electrification of transport and homes. Most of the interim targets that are now under pressure were set before this growth was anticipated. Meeting new demand reliably has led many utilities to delay coal retirements and to add substantial new gas generation. Ameren Missouri's latest integrated resource plan illustrates the scale of the shift: it now includes more than 10,000 MW of new gas generation over the next two decades, up from 2,400 MW in its 2023 plan, alongside significant additions of solar, wind, battery storage and nuclear. Responses to this pressure vary across the sector, and many utilities have already cut emissions substantially since 2005. The challenge now is sustaining that progress as demand grows.

Policy has also shifted. Many of the renewable energy tax credits and power plant emissions rules introduced under the Biden administration have been scaled back or repealed under the Trump administration, making long-term planning more difficult for assets that operate for decades. At the state level, regulators are focused on reliability and keeping bills low. One utility relayed to us during an engagement that its corporate emissions targets had contributed to a poor regulatory outcome in at least one state, where regulators saw the targets as driving unnecessary investment decisions that customers ultimately pay for. In response, some utilities have moved to a state-by-state approach, complying with local clean energy laws rather than setting company-wide goals. Several have also toned-down public climate reporting, which can make it harder for investors to assess their progress.

What this means for our investment approach

Demand growth is also a significant investment opportunity. Regulated utilities create value by building the generation and network infrastructure new customers need, and we expect the average US regulated utility to grow earnings per share by around 6% to 8% a year over the next five years, compared with roughly 4% to 6% historically. We also recognise that some continued investment in gas is needed to keep energy reliable and affordable during the transition.

However, in our view, credible emissions targets, measurable progress and transparency about the pathway to net zero remain essential. Utility assets operate for decades, and the policy, technology and customer expectations they face over that period may look very different from today. A company that builds significant new fossil fuel capacity without a clear plan for its long-term role may face higher transition risk later. That said, we are also cautious where long-term goals rely heavily on technologies that are not yet commercially proven, such as hydrogen and carbon capture, or on carbon offsets.

Stewardship: engaging through the transition

As long-term shareholders, we believe we can play a constructive role in how companies respond to these pressures. For example, we are a co-lead investor of the Climate Action 100+ collaborative investor engagement group for American Electric Power (AEP). Over the past year, AEP has withdrawn its target to cut emissions 80% by 2030 and now describes its 2045 net zero goal as an aspiration. We have used our role to press for greater transparency. Our requests include a realistic emissions pathway under different scenarios, clearer state-by-state reporting, restored

disclosure on support for workers and communities affected by coal closures, and a stronger link between executive pay and emissions performance.

We have also been examining the cost assumptions underpinning AEP's long-term resource plans, which set out how each of its utilities intends to meet future demand. These assumptions, such as the expected cost of building solar, batteries or gas plants, can strongly influence which technologies are chosen. Our analysis found that they vary widely across AEP's utilities in different states, and we have asked the company to explain these differences. AEP has agreed to consider our requests, and our engagement is ongoing.

These insights feed directly into our Corporate Sustainability & Governance (CS&G) scores, which comprise 20% of the overall stock ranking process. Where commitments are weakened without a credible rationale, scores may be adjusted downwards. We also use our proxy votes to hold boards accountable on climate targets and emissions performance, and we relay our voting decisions directly to the companies concerned.

Despite these sector shifts, the Fund currently remains on track to meet its interim target of a 50% reduction in the scope 1 & 2 emission intensity of its portfolio by 2030, relative to a 2020 baseline.

Macroeconomic perspectives

During the quarter the GLI strategy again refreshed its macroeconomic assumptions and discussed key risks during its regular quarterly Macroeconomic Advisory Committee. Two external economists, Gerard Minack from Minack Advisors and Peter Berezin from BCA Research, sit on the Committee to independently share their perspectives. We highlight the key discussions this quarter that are relevant for our investment in infrastructure assets, as well as our views on the portfolio in this context.

Outlook for inflation, growth and interest rates

Given the sharp rise in long-term sovereign bond yields globally, there was a strong focus on understanding the moves. The Committee's view was that long-term interest rates have structurally reset to a new higher range, broadly in line with pre-GFC levels. A GDP-weighted average of G7 10-year yields had broken to new highs, driven primarily by higher real yields rather than inflation expectations. Higher real yields reflected the ongoing increased investment spending, driven primarily by AI, climate adaptation, defence and supply chain resilience, as well as larger public sector deficits that reducing the pool of global savings. Both economists agreed that there was no clear path to materially lower yields this year, although a slowdown in US growth could see yields fall cyclically toward the bottom of an estimated 4–5% range for the US 10-year.

The Committee's discussion of growth centred on the risks to the US consumer, which is core to US GDP growth. Recent consumer spending has been sustained only by a willingness to draw down savings, which the Committee views as fragile, while real labour income growth has effectively stalled. Additionally, growth appears pressured by the ongoing Gulf conflict where there are low expectations of a permanent resolution at least through to the US midterm elections. Separately, despite market optimism, the Committee reiterated caution that AI-related capital expenditure only contributes modestly to US GDP growth because the majority of spending is on imported components.

Outside of the US, Europe continued to be supported by a tight labour market and household savings rates well above US levels. Although the Committee warned that a prolonged period of high energy prices could push the region into a technical recession.

The Committee's view is that inflationary price pressures are concentrated in goods prices, largely reflecting the effects of tariffs and higher energy prices, rather than broad-based wage growth. While the risks of even higher energy prices was a concern, there was consensus that goods inflation should subside without material second-round effects.

The Committee continued to expect that the AI-driven investment boom will ultimately end in a capital expenditure bust, most likely in 2027, as the revenue required to justify planned investment remains far in excess of what is plausible. For the hyperscalers alone, an estimated US$1.3-1.5 trillion in incremental annual revenue would be needed to generate a reasonable return on the capital expenditure planned over the next two years. The risk of Chinese competitors continuing to offer comparable model performance at a fraction of the cost, likely undermines the case for monopolistic returns that are likely needed by the hyperscalers.

Portfolio considerations

The Portfolio Managers believe that the current global economic outlook, which has been made particularly uncertain by a fragile US economy and the ongoing conflict in the Middle East, continues to support the case for infrastructure assets given their defensive characteristics.

As per normal, during the quarter we adjusted our portfolio positioning for various reasons – most notably for changes in stock prices and analyst viewpoints – with one factor being to incorporate the updated macroeconomic assumptions and discussions from the Committee meeting. The recent market increase in long-term interest rates and the Committee's structural views remain consistent with the assumptions underpinning our valuations. We continue to closely monitor global developments to ensure that the portfolio remains appropriately positioned for macroeconomic risks.

For latest Fund factsheet click here.

^All companies mentioned are for illustrative purposes only and are not a recommendation to buy or sell any particular security





Further information
Contact our Client Service team by:
T +61 2 8059 7671
E invest@maple-brownabbott.com

Australian Head Office
Maple-Brown Abbott Limited
Level 25, Australia Square Tower
264 George Street, Sydney NSW 2000

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