MAGELLAN

MFG Core Infrastructure Fund

(MANAGED FUND) (TICKER: MCSI)

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

ARSN 646 028 131 **APIR MGE9182AU** **AS AT 30 SEPTEMBER 2023**

Fund Features

- An actively constructed portfolio of 70 - 100 securities that meet our proprietary definition of infrastructure, rebalanced in a systematic manner
- Highly defensive, inflation-linked exposure
- Investors can buy or sell units on the Cboe securities exchange like any other listed security or apply and redeem directly with the Responsible Entity

Fund Facts

Portfolio Manager	Gerald Stack	
Structure	Global Listed Infrastructure Fund, A$ Hedged	
Objective	Achieve attractive risk-adjusted returns over the medium to long term through investment in a diversified exposure to infrastructure securities that meets the Investment Manager's definition of infrastructure.	
Investment Risks	All investments carry risk. While it is not possible to identify every risk relevant to your investment, we have provided details of the risks that may affect your investment in the relevant Product Disclosure Statement. You can view the PDS for the fund at www.magellancoreseries.com.au.	
Inception Date^	17 December 2009	
Management Fee[1]	0.50% per annum	
Buy/Sell Spread[2]	0.15%/0.15%	
Minimum Investment[2]	AUD$10,000	
Fund Size/NAV Price	AUD $321.6 million / $1.3878 per unit	
Distribution Frequency	Semi-annually	
Cboe Ticker	MCSI	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSI AU Equity) **Refinitiv (MCSI.CHA)** **IRESS (MCSI.CXA)**	MCSIAIV MCSIAUDINAV=SOLA MCSIAUDINAV	MCSIAUIV Index MCSIAUiv.P MCSI-AUINAV.NGIF

Visit www.magellancoreseries.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms

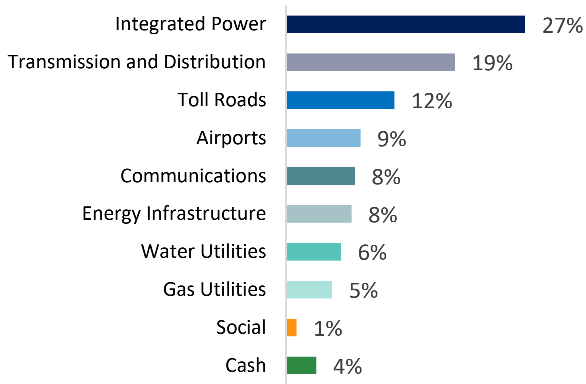
[1]Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST;
[2]Only applicable to investors who apply for units directly with the Responsible Entity.

Performance*

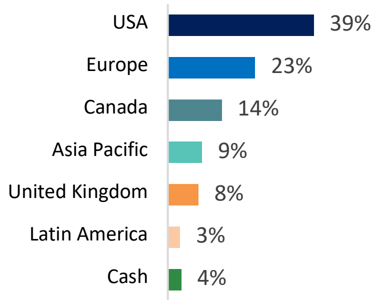
	Fund (%)	Index (%)**	Excess (%)
1 Month	-4.5	-4.1	-0.4
3 Months	-8.5	-6.5	-2.0
6 Months	-10.6	-7.1	-3.5
1 Year	-2.0	2.7	-4.7
3 Years (p.a.)	1.8	7.1	-5.3
5 Years (p.a.)	4.0	3.1	0.9
7 Years (p.a.)	4.1	3.6	0.5
10 Years (p.a.)	7.9	6.0	1.9
Since Inception (p.a.)	9.9	6.8	3.1

Past performance is not a reliable indicator of future performance.

Sector Exposure#

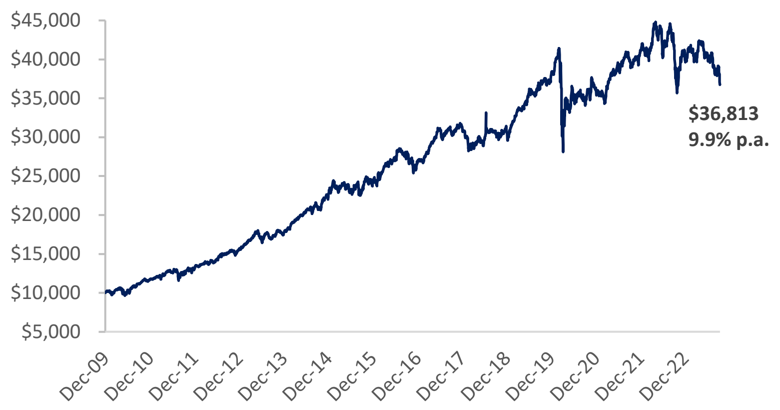


Geographical Exposure#



^ 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.
* 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). Fund Inception 17 December 2009. Returns denoted in AUD.
** 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.
# Sectors are internally defined. Geographical exposure is by domicile of listing. Cash exposure includes profit/loss on currency hedging. Exposures may not sum to 100% due to rounding.

Performance Chart growth of AUD $10,000*



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Top 10 Positions

Company	Sector#	%
Vinci SA	Toll Roads	3.00
Transurban Group	Toll Roads	2.97
National Grid Plc	Transmission and Distribution	2.96
Fortis Inc	Transmission and Distribution	2.94
Ferrovial SE	Toll Roads	2.93
Cellnex Telecom SA	Communications	2.91
Enbridge Inc	Energy Infrastructure	2.91
TC Energy Corporation	Energy Infrastructure	2.76
Aena SME SA	Airports	2.31
Terna SpA	Transmission and Distribution	2.21
	TOTAL:	27.89

Fund Commentary

The portfolio recorded a negative return for the quarter ended 30 September, with central banks hinting interest rates may stay higher for longer.

Stocks that detracted most were investments in communications companies Crown Castle and Cellnex, as well as Australian toll road operator Transurban. Shares of US-based Crown Castle and Spain-based Cellnex declined during the period as bond yields pushed higher amid ongoing concerns about inflation. Crown Castle was also affected by weaker performance at its tower service business. Meanwhile, Transurban traded lower on the combination of rising bond yields and weaker-than-expected traffic volumes in one of its major markets.

Some of the largest stock contributors over the three-month period included Fraport, Ferrovial and Grupo Aeroportuario Del Centro Norte (OMA). Shares of Germany-based airport operator Fraport rose on stronger-than-expected earnings results, ongoing traffic recovery and a positive lift to its financial outlook. The Netherlands-listed toll road and airport operator Ferrovial lifted on strong traffic activity at its largest asset (the 407 ETR toll road in Canada) and improved performance from Heathrow airport. Mexican airport operator OMA saw its share price rise during the quarter after reporting record profitability on the back of robust travel demand and realised cost efficiencies.

Index movements and 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 which would increase the likelihood of investment returns being 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.

Story: American Water

(Jowell Amores – Portfolio Manager)

AMERICAN WATER

A high-water mark for infrastructure investment

Leveraging Scale

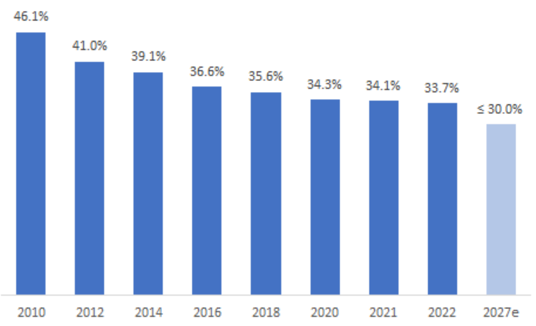
Few utilities in Magellan's infrastructure universe are in a position to leverage their scale in the same way as American Water Works (NYSE: AWK).

As the largest listed water utility in the US, American Water has the advantage of scale that is central to its business model and overall strategy. The company leverages this scale primarily through purchasing power, cheaper financing and efficient labour, which ultimately leads to lower costs. This may be less of a priority for some utilities but for American Water this is critical. This scale allows the company to:

1. **Invest in and expand the asset base.** Under its regulatory scheme, reducing operating costs allows American Water to increase its asset base investments without causing large increases in customer bills. The company estimates that for every US$1 of expense it can save, the utility can invest as much as US$8 into the asset base and still keep customer bills unchanged. For American Water shareholders, this means the company is generating a return on the US$8 investment instead of recovering that one dollar of expense.
2. **Better compete on acquisitions.** As much as it is about the price being paid to purchase a water utility, acquisitions still need approval from a government/regulatory body. Authorities will often ask for assurances from the buyer that customer rates will either decline or hold steady for an extended period. In these instances, American Water's ability to offer prospective customers more affordable utility bills (due to its scale) gives the company a competitive advantage when it comes to obtaining government and regulatory approval.

Exhibit 1 below illustrates American Water's operating and maintenance expense as a proportion of revenues, showing a sustained downward trend since 2010 driven by leverage of overhead costs and ongoing productivity. Over the period between 2010 and 2022, American Water has reduced its expense ratio by more than 12% despite acquiring more than 400,000 new customers.

Exhibit 1: Operating Cost-to-Revenue Ratio



Source: American Water Investor Presentation (August 2023)

Flywheel effect

When American Water began trading in 2008 following its IPO, the company began a major operational restructure to address its 48.5% Operation and Maintenance efficiency ratio. This naturally took some time to see an improvement (due to legacy processes and contracts) but costs eventually started to plateau, and revenues gradually increased with customer growth. Unbeknownst to most, this marked the start of the flywheel effect for American Water.

As presented in Exhibit 2, the cost efficiencies American Water was able to realise translated into a lower cost base. This subsequently gave American Water a competitive advantage when it came to acquiring other water utilities. The lower cost base meant that with economies of scale, American Water could offer prospective customers lower utility bills. It also meant American Water could offer a marginally higher price for a utility because it could achieve better cost synergies. Naturally, the proposition of affordable utility bills, as well as a competitive price, attracted sellers seeking to offload their water systems.

As American Water added new customers via acquisitions, it logically grew both the customer and asset base. This allowed American Water to extract more from its cost base, resulting in even greater cost efficiency. The leverage and efficiency subsequently enabled the company to make its next acquisition. This, in short, was American Water's flywheel turning and creating long-term sustainable earnings growth.

Exhibit 2: American Water's Flywheel

Source: Magellan

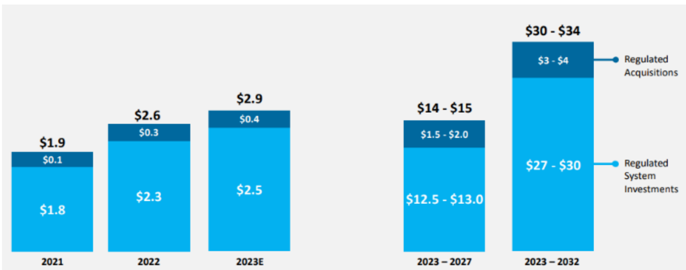
Of course, this raises the question: How specifically does American Water create operating leverage following an acquisition? As with any company with a large, fixed cost base, operating leverage comes from spreading costs over a larger customer base. American Water will use its buying power to bulk-purchase materials and equipment (e.g. chemicals, pipes, valves, construction materials, etc.) to lower the unit costs of the newly acquired utility. This operating leverage is particularly high when the business acquires a neighbouring utility, where it can maximise labour and resources.

Also underappreciated in the American Water investment thesis is the state of the US water market. American Water operates in a highly fragmented market where 84% of water systems in the US are still publicly owned. This is even more the case in the wastewater market where 98% of customers are served by municipal, local and state government entities. The fragmented state of the US water market has been slow to change over the years due in part to regulatory and government limitations. These restraints have, however, started to lift with the introduction of new state legislation and regulatory changes that better facilitate transactions. We believe that other factors such as the growing number of municipalities dealing with escalating budgetary pressures and rising debt burdens will also help push market consolidation.

"Selling the sewer system to New Jersey American Water was the right decision for our community. With private ownership of the system, the borough will eliminate the need for significant rate increases going forward and borrowing money for future improvements will end. Somerville will then be able to fund other needed projects, the sewer system will be maintained and improved on a consistent basis, and sewer rates will remain stable…" *– Somerville Mayor Dennis Sullivan (3 October 2023)*

Either way, we believe that American Water will be a primary beneficiary of a consolidating market due to the inherent advantages discussed above. This has become particularly evident in management's outlook for the company, which indicates that regulated acquisitions will grow four-fold in 2023 (in dollar terms; versus 2020) with another ~1.3m new customer additions in the pipeline[1]. Acquisitions, of course, reveal only part of the overall American Water story, as Exhibit 3 shows the growth in regulated investments expected to occur over the next decade, which should translate into about 8-9% annual asset base growth.

Exhibit 3: Regulated Capital Investments (US$ in billions)



Source: American Water Investor Presentation (August 2023)

[1] American Water August 2023 Investor Presentation

As with all infrastructure investments, American Water's growth isn't immune to risks and challenges. The utility is subject to many of the same risks as any regulated utility investment – regulatory, interest rate and macroeconomic risks. We believe American Water offers infrastructure investors a superior blend of long-term, low-risk and predictable earnings. Over the long term, American Water's simple-yet-effective business model provides us with comfort that it has the potential to achieve its guided 7-9% earnings and dividend CAGR over the next decade in a risk-averse way.

A pure water play

The history of American Water traces to 1886 when the American Water Works & Guarantee Company was founded. While much happened in between, 2003 was a year of note because American Water was acquired then by the German utility RWE, which then listed the company in 2008 via a 'spin-off'.

Today, American Water remains a stand-alone pure-play water business. The most important is the regulated business, which provides water and wastewater services to about 1,600 communities in 14 states. The unit's assets consist of more than 53,000 miles (85,000+ kilometres) of pipes, 540 water-treatment plants, 1,100 wells, 175 wastewater plants, 1,100 water-storage facilities and 1,700 pumping stations. This regulated business brings in more than 90% of the company's revenue. Approximately 26% of regulated revenue is sourced from New Jersey while another 23% comes from Pennsylvania. American Water's other business is the Military Service Group, where the subsidiary provides water services to 18 US military bases under 50-year contracts with the US government.