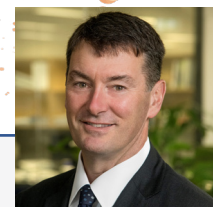


MFG CORE INFRASTRUCTURE FUND (MANAGED FUND)

TICKER: MCSI | APIR: MGE9182AU | ARSN: 646 028 131

A diversified portfolio of 70-100 stocks that meet Magellan's strict definition of infrastructure, with a proven institutional track record of delivering reliable investment returns and protecting capital in adverse markets.



Gerald Stack
Portfolio Manager

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Dear Investor,

The strategy invests in a portfolio of listed infrastructure companies that Magellan considers to be high quality and generate reliable long-term earnings. This is expected to ultimately lead to reliable investment returns.

In addition to seeking to invest in companies with reliable underlying earnings, we aim to position the portfolio towards structural growth that is expected to drive returns for investors. For example, the transition of the global economy to net-zero emissions will require significant investment in renewable energy and electricity transmission and distribution that will enable regulated electric utilities to grow their assets and earnings. Similarly, ongoing economic growth will lead to increased road and aviation traffic that can be expected to increase revenues and earnings for toll roads and airports.

The past 12 months have seen central banks continue to tighten monetary policy with consequent increases in prevailing bond yields leading to increased market volatility. While equity markets have been volatile in recent years, we consider the underlying earnings of the infrastructure and utility companies in our defined investable universe will prove reliable. These reliable earnings, when demonstrated, will provide a high degree of confidence that a portfolio of high-quality infrastructure companies can continue to grow the wealth of investors in these assets.

Portfolio Strategy

The types of infrastructure assets in which the strategy invests are generally natural monopolies that provide essential services to the community; that is, services required by communities to enable the people and the businesses in the community to go about their daily lives – essential services such as the provision of energy, water and transport. The fundamental need for these services means that demand for the infrastructure that provides such services is reliable.

We exclude from our defined infrastructure investment universe those companies whose earnings are exposed to factors that can lead to significant unexpected changes to earnings. By avoiding companies whose earnings are less predictable, we limit our investment universe to companies that provide investors with predictable, through-the-cycle, inflation-linked returns. The companies we exclude from our investment universe are those companies whose earnings are threatened by direct competition, sovereign risk (particularly where property rights are considered under threat) or changes in commodity prices.

The universe of infrastructure assets we consider for the strategy comprises two sectors:

- **Regulated utilities**, which include energy and water utilities. We estimate that utilities comprise approximately 60% of the potential investment universe for the strategy. Utilities are typically regulated by a government-sponsored entity and the regulation requires the utility to efficiently provide an essential service while allowing the utility to earn a fair rate of return on its invested capital.
- **Transport Infrastructure**, which includes airports, ports, railroads, toll roads, communications assets, and energy infrastructure (oil and gas pipelines and storage). Typically, infrastructure companies are involved in the transport of people, goods or data. Regulation of infrastructure companies is generally less intensive than for utilities and allows companies to benefit from growth in the use of infrastructure assets. As economies and technology

develop, we expect the volume of aviation, shipping, rail and vehicle traffic to increase, along with demand for data transported through communications networks.

Infrastructure assets offer investors meaningful protection from inflation because their real earnings are generally protected in various ways.



Utility and infrastructure companies provide essential services while facing limited, if any, competition. Because the services are indispensable, the prices charged can be adjusted with limited impact on demand. As such, earnings are more reliable than those of a typical industrial company and generally enjoy inherent protection against inflation. Over time, the stable revenue or cash flow streams derived

from infrastructure assets are expected to deliver income and capital growth for investors.

Over the 16 years we have been managing infrastructure investments, we have faced many periods of investment market uncertainty. Ultimately, the use of a conservatively defined infrastructure investment universe has meant that the long-term earnings derived by the companies we invest in have grown in a predictable manner and this has led to reliable long-term wealth accumulation for investors.

Impact of inflation and interest rates on infrastructure investments

The emergence of inflation and withdrawal of ultra-accommodative monetary policy settings marked a paradigm shift in global markets during the last 12 months. Consequent increases in prevailing bond yields have led to increased investment market volatility. There are two key areas we focus on when considering interest rates:

- 1. The impact on the businesses in which we invest:** We remain confident the businesses that meet our investment-grade infrastructure criteria are well placed to meet our investment expectations through a period of elevated inflation and rising interest rates; and
- 2. Impact on valuations and on debt and equity markets:** An increase in interest rates can be expected to lead to a higher cost of debt and an increase in long-term discount rates. We observe that stocks regarded as “defensive”, including infrastructure businesses and utilities, are often subject to negative sentiment during periods characterised by rising interest rates. Nevertheless, it is our experience that, provided the fundamentals of the businesses we are invested in remain robust, their stock prices can ultimately be expected to resume their former trajectory of growth. As the famous investor Benjamin Graham noted, in the long run the stock market is a cash flow weighing machine and what matters is underlying business performance rather than short-run prospects.

Notwithstanding equity market volatility, we expect that underlying earnings of infrastructure and utility companies in

our defined investable universe should be robust and reflect solid growth. Ultimately the value of the companies in our investment portfolio reflects the future cash flows they are expected to generate and the risks associated with those cash flows.

PORTFOLIO COMMENTARY

The portfolio recorded a negative return for the quarter ended 30 June, with 10-year bond rates lifting as jobs and spending remained resilient, suggesting central banks would need to do more to tame inflation.

Stocks that detracted most were investments in US communications companies Crown Castle and SBA Communications, as well as US utility company Xcel Energy. Shares of both Crown Castle and SBA Communications declined during the period as rising bond yields reflected ongoing concerns about inflation. Xcel Energy saw weak performance over the quarter on a combination of a disappointing regulatory outcome in a key jurisdiction and the higher interest rate environment.

Some of the largest stock contributors over the three months included Ferrovial, Terna SpA and Cellnex. Spain-based infrastructure company, Ferrovial, increased over the period as the company reported strong earnings results on the back of faster traffic recovery in their North American toll road assets. Shares of Terna SpA rose following strong interim results and positive investment implications coming from the Italian 10-year development plan. Spanish communications company, Cellnex, saw recovery in its shares during the quarter after a sell-off related to higher interest rates.

The portfolio recorded a negative return for the 12 months ended 30 June, as central banks continued raising interest rates in response to lingering inflation concerns. This was partially offset by the strong post-pandemic recovery across the transport infrastructure sector.

Stocks that detracted most during the period were Dominion Energy, Crown Castle and Algonquin Power & Utilities. US utility, Dominion Energy, declined as the management team announced a strategic review of the business that could lead to changes to earnings guidance. Shares of Crown Castle fell as US Treasury yields rose on inflation concerns. Canadian-based utility, Algonquin Power & Utilities, declined after having to withdraw its long-term growth targets due to macro headwinds and a challenging capital markets environment.

The stocks contributing the most over the 12-month period included Ferrovial, Aena and Vinci. Ferrovial shares lifted as air traffic and traffic on its US roads was towards the top end of expectations. Spain-based airport operator, Aena, rose as its traffic levels exceeded 2019 levels and as 2022 earnings and

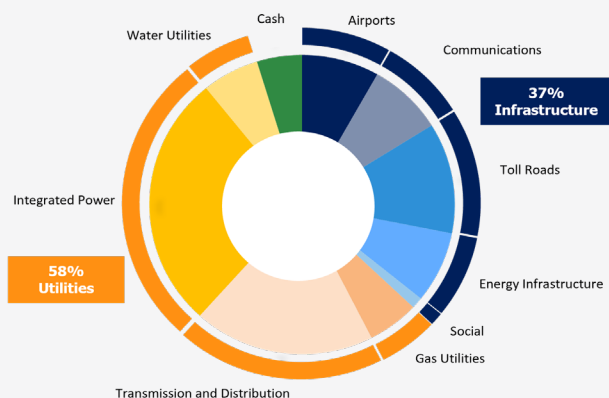


2023 guidance exceeded consensus. Shares of Vinci increased as earnings came in ahead of consensus and as airport passenger traffic continued to rebound across its portfolio.

Index movements and stock contributors/detractors are based in local currency terms unless stated otherwise.

PORTFOLIO POSITIONING

Sector Exposure*



* Magellan defined sectors. Exposures may not sum to 100% due to rounding.

As the chart above shows, at the end of June 2023 the portfolio comprised just under 60% in utilities and the remainder in infrastructure companies, excepting a small allocation to cash. While the generation of reliable long-term earnings is a key characteristic of these investments, some sectors in which the portfolio has invested enjoy attractive long-term structural growth.

The **regulated electricity utilities** in the portfolio (categorised as 'integrated power' and 'transmission and distribution' in the chart above) typically operate within regulatory frameworks that protect their earnings against increases in fuel and purchased power costs. In most instances, regulatory mechanisms also moderate the sensitivity of earnings to changes in customers' consumption of electricity. Reflecting these supportive regulatory settings, all the electricity utilities in the portfolio reported 2022 calendar-year financial results that were in line with or ahead of guidance issued at the beginning of the year, notwithstanding the impact of sharp rises in wholesale energy prices, inflation-driven cost increases and ongoing supply chain issues.

We expect the transition to a net-zero economy to require sustained high levels of investment, leading us to anticipate attractive rates of earnings growth for our regulated electricity utilities for the decades to come. Electrification of end-use consumption lies at the heart of

policymakers' plans to achieve net-zero emissions, with the International Renewable Energy Agency projecting that the contribution of electricity to total energy consumption will increase from 19% in 2019 to 50% in 2050.¹ A meaningful portion of the remaining demand for energy in a net-zero economy is expected to be met by green hydrogen and advanced biofuels synthesised in grid-connected electrolyzers and 'Power-to-X' facilities that utilise renewable electricity as an input to production, further accentuating the contribution of electricity infrastructure. Having regard to the critical role electricity utilities play in unlocking the path to a net-zero economy, investors can be confident that significant network investment is likely to attract regulatory support.

The International Energy Agency (IEA) estimates that global renewable generating capacity will need to triple over the period to 2030 and increase nine-fold over the period to 2050 if the world is to achieve net-zero by mid-century.² The IEA further projects investments in electricity grids will triple to 2030, remaining at elevated levels until 2050.³ In the context of the United States, Princeton University estimates that the transition to a net-zero emission economy will require investments in new wind and solar capacity totalling US\$3.4 to \$6.2 trillion and in new transmission capacity totalling US\$2.5 to \$3.7 trillion.⁴ Investments in electricity distribution networks to support the electrification of transportation are likely to require further significant investment. Under the regulatory construct, these investments boost the earnings potential of our electricity utilities, presenting investors with an opportunity to compound attractive risk-adjusted investment returns for a generation.

Water utilities are among the most defensive assets in the infrastructure investment universe. Stable underlying demand for water and wastewater services confers on the earnings of these companies a high degree of predictability. The replacement of ageing pipes and water treatment plants coupled with efforts to enhance the resilience of networks against the impacts of climate change support expectations of predictable growth in earnings well into the future.

Gas utilities operate within regulatory constructs that protect their earnings against increases in volatile natural gas prices. In many instances, these businesses also benefit from weather-normalisation clauses and revenue-decoupling mechanisms that either moderate or eliminate the sensitivity of earnings to changes in customer consumption. As a consequence of this favourable treatment, the gas utilities in the strategy delivered robust financial results during 2022 despite sharp rises in gas prices and other cost pressures.



¹ International Renewable Energy Agency, Energy Transitions Outlook 2022: 1.5°C Pathway, March 2022.

² International Energy Agency, Net Zero by 2050: A Roadmap for the Global Energy Sector, May 2021.

³ International Energy Agency, Net Zero by 2050: A Roadmap for the Global Energy Sector, May 2021.

⁴ Princeton University, Net-Zero America: Potential Pathways, Infrastructure, and Impacts, December 2020.

The significant investment required to replace ageing cast iron, bare steel and vintage plastic pipe within gas distribution networks supports attractive earnings growth rates for many gas utilities. We expect the space heating loads that dominate demand for gas to prove resilient to electrification in the regions where we invest, reflecting the superior economics and technical properties of gas-fired heating relative to electric heat pumps.

The **communications infrastructure** assets in the portfolio generate highly defensive earnings streams. Leases over communications tower assets are typically struck with an initial term of five to 10 years, provide for multiple renewal terms, and limit the termination rights of tenants. Moreover, lease agreements ordinarily embed rent escalation clauses, with rents typically escalating at a rate of about 3% p.a. in the US and at prevailing inflation rates in international markets.

With mobile data consumption expected to grow at rates in excess of 25% p.a. in key international markets over the next five years, communication infrastructure companies in the portfolio are poised to benefit from strong tenancy growth as wireless carriers add cell sites to deliver adequate network coverage. Having regard to the operating leverage inherent in the tower companies' business models, this revenue growth is expected to yield outsized growth in earnings and cash flow.

The **toll-road** companies in the strategy are among the most structurally advantaged infrastructure assets in the world. Congestion on alternative routes implies that these assets face limited competition and capture a disproportionate share of incremental growth in traffic. Moreover, concession agreements typically provide for CPI-linked toll increases or increases at fixed nominal rates above long-term CPI

preserving the real value of cash flows in an inflationary environment. As the Covid-19 health crisis has abated, restrictions on movement have eased, supporting a rapid recovery in traffic volumes. The traffic levels for most of the toll roads we follow are now back above pre-pandemic levels, demonstrating the robust underlying demand for the efficient transportation these essential assets provide.



While the global health crisis still weighs on the results of our **airport** investments, easing pandemic restrictions have seen the recovery in aviation activity gather momentum over the last several months. For the month of May (the most recently available data), the International Air Transportation Association (IATA) reported that global passenger demand remained about 3.9% below its 2019 level, with international demand operating at about 91% of its pre-pandemic level and domestic travel about 5.3% above 2019 levels. IATA's most recent projections call for world aviation activity to exceed 2019 levels in 2024, while major airports are guiding to a recovery to 2019 passenger volumes between 2023 and 2027.

The **energy infrastructure** companies in the strategy generate earnings by storing and transporting crude oil, natural gas

and chemicals in their network of storage terminals and pipelines. The selective group of storage and pipeline assets that meet our strict definition of infrastructure derive the bulk of their earnings under long-term take-or-pay arrangements. Critically, these arrangements immunise earnings against the movements in commodity prices that erode the reliability of cash flows from most oil and gas pipelines. Moreover, while our energy infrastructure investments often bear some volume risk on their assets, the advantaged producing regions and demand centres that these pipelines and storage assets serve have historically supported consistently high levels of use.



While the transition to a global economy that is less reliant on fossil fuels may challenge energy infrastructure companies in the long term, we expect their reliable earnings to be fundamentally undisturbed for at least the next 15 years. While most major auto manufacturers have signalled their intent to discontinue the sale of internal combustion engine passenger vehicles between 2030 and 2035, the existing fleet will support demand for crude oil well beyond this period. Indeed, Bloomberg New Energy Finance forecasts there will still be more than 900 million fossil-fuel-powered vehicles on the road in 2040, representing more than half of the global fleet. We expect demand from power generation and space heating to lend similar resilience to natural gas transportation assets.

Having regard to the advantaged characteristics and favourable prospects of the companies in the portfolio, we remain confident that the strategy will meet its objectives of delivering attractive risk-adjusted investment returns over the long term and protecting capital in adverse markets.

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 leading to investment returns 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 at discounts to their assessed intrinsic value. 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.

Yours sincerely,



Gerald Stack

July 2023

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MFG Core International Fund (Managed Fund)



TICKER: MCSI | APIR: MGE9182AU | ARSN:646 028 131

AS AT 30 JUNE 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 meet the Investment Manager's definition of infrastructure.	
Investment Risks	All investments carry risk. While it is not possible to identify every risk relevant to an investment in the fund, we have provided details of risks in the 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 ³	AUD \$294.5 million / \$1.5493 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.

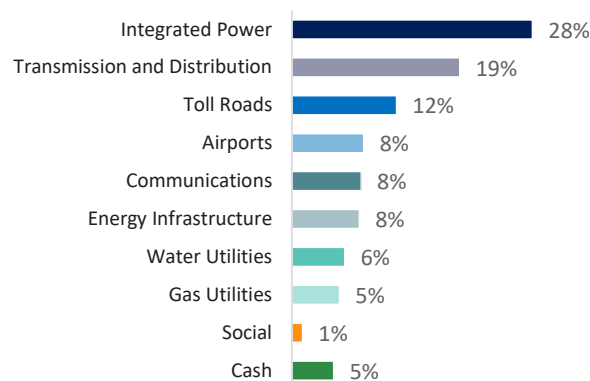
³ NAV price is cum distribution and therefore includes the distribution of \$0.0322 per unit payable on 21 July 2023.

Performance*

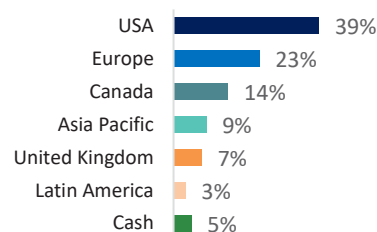
	Fund (%)	Index (%)**	Excess (%)
1 Month	-0.2	1.8	-2.0
3 Months	-2.3	-0.7	-1.6
6 Months	1.2	2.5	-1.3
1 Year	-3.5	1.8	-5.3
3 Years (p.a.)	5.0	9.3	-4.3
5 Years (p.a.)	5.7	4.2	1.5
7 Years (p.a.)	5.2	5.0	0.2
10 Years (p.a.)	9.0	7.1	1.9
Since Inception (p.a.)	10.8	7.5	3.3

Past performance is not a reliable indicator of future performance.

Sector Exposure[#]



Geographical Exposure[#]



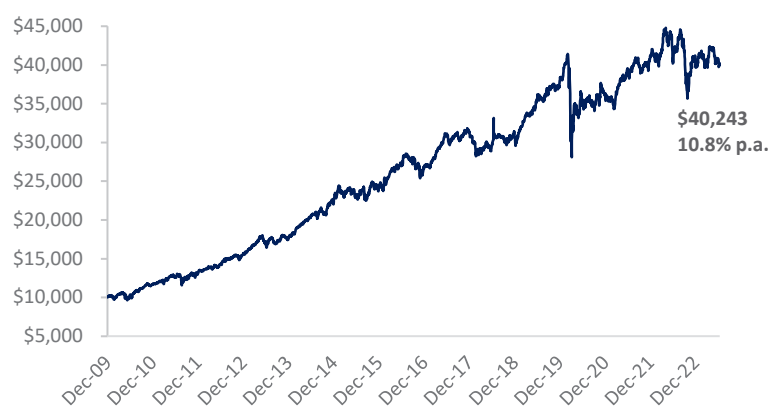
[^] The Fund was established on 17 December 2009 as an unregistered managed investment scheme. On 19 November 2020, the Fund's name was changed to MFG Core Infrastructure Fund and on 30 November 2020 the Fund was registered with ASIC as a registered managed investment scheme and became available to retail 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*



Past performance is not a reliable indicator of future performance.

Top 10 Positions

Company	Sector [#]	%
Enbridge Inc	Energy Infrastructure	2.97
Vinci SA	Toll Roads	2.89
Cellnex Telecom SA	Communications	2.88
Fortis Inc	Transmission and Distribution	2.87
Transurban Group	Toll Roads	2.85
TC Energy Corporation	Energy Infrastructure	2.85
Ferrovial SE	Toll Roads	2.78
National Grid Plc	Transmission and Distribution	2.77
Terna SpA	Transmission and Distribution	2.28
Aena SME SA	Airports	2.20
TOTAL:		27.34

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STOCK STORY: SEMPRA

Connecting growth to decarbonisation



Global energy markets will need to evolve dramatically over the next three decades. Worldwide, the population is forecast to grow by nearly 2 billion¹ and global living standards are expected to rise as per capita consumption increases – and all this against the backdrop of a growing push towards decarbonisation. North America will be no different from this global trend, with its population predicted to grow by 0.4%² each year through 2050 and real GDP to expand at a 1.6%³ CAGR over the same period, coupled with the challenge of the utilities sector needing to lift spending over 50% against its annual run rate to meet decarbonisation goals.

In this context, there are few businesses better placed to capitalise on these macro forces than Sempra.

Sempra is one of the largest energy infrastructure companies in North America, serving almost 40 million customers across its vast energy network. Its presence spans the US West Coast, Gulf region and Mexico via its three infrastructure platforms:

- California Utilities;
- Texas Utilities; and
- Sempra Infrastructure, which include its prolific liquified natural gas (LNG) assets.

To give a sense of its scale, across these platforms, Sempra's assets combine for approximately 300,000 miles of electricity transmission and distribution lines and gas pipelines in major North American markets, while accessing premium renewable resources and facilitating some of the region's largest energy exports. This includes more than 1 GW of renewable generation and over 30 Mtpa of LNG export capacity in operation or under construction.

All three infrastructure platforms will play a pivotal role in the long-term growth of the business, as each will position Sempra in some of the most attractive macro and structural tailwinds. Among the various macro drivers, the platforms should gain from operating in the top four largest economic (based on GDP) states/regions in North America, the top three electricity-consuming US states, and the region's three largest renewable generation markets.

In addition, the platforms benefit from some of the most progressive net-zero and grid modernisation policies in North

America and the rest of the world. All in, this means significant capital investment for Sempra's subsidiaries over the coming decades. Indeed, management has earmarked US\$40 billion of capital investments through 2027 – with more than 90% allocated for the regulated utilities – and bodes well for achieving its 6-8% annual earnings growth guidance for (at least) the next five years.

Much of this earnings growth will come from its planned investments in its California utilities segment – where San Diego Gas & Electric and SoCalGas combine to serve more than 25 million regulated customers. California remains the most favourable environment to invest in for Sempra, and for good reason. First, California is the largest economy in the United States and requires meaningful infrastructure investment to maintain this leadership position. Second, California has some of the most ambitious clean energy goals of any state, with 2030 objectives that include (among others):

- 1) Reducing carbon emissions by 40%;
- 2) Supporting 5 million electric vehicles; and
- 3) Providing core gas customers with 20% renewable gas.

Moreover, California maintains one of the more constructive regulatory environments in the US. Sempra's utilities enjoy a regulatory jurisdiction that allows an equity return of 9.8-9.95%, with no earnings exposure to volumes or commodity prices, and quick recovery of capital investments.

Sempra's Texas utilities platform includes Oncor, a regulated electricity transmission and distribution utility headquartered in Texas. The company operates more than 141,000 miles of transmission that connect to nearly 19 GW of renewable generation, and distribution lines that serve approximately 13 million customers, making it the largest pure-play T&D business in the country. Similar to the California platform, Oncor enjoys robust demographic growth (averaging more than 1,000 new residents per day) and record demand for interconnections as a product of the state's tremendous expansion in renewables generation. This has equated to an 8% CAGR in the asset base in just the last five years. Oncor will only continue to grow as evidenced by the strong policy support from both legislators and regulators (including authorised equity returns of 9.7%).

Despite its smaller earnings contribution, Sempra Infrastructure is an equally important part of the overall growth story. This platform includes a portfolio of LNG terminal assets throughout Texas and Mexico, as well as a network of energy transition assets. The LNG assets dominate this platform, due in large part to key markets access and sound economic earnings. These assets represent significant value for Sempra, as the terminals generate long-dated cash flows that are backed by take-or-pay earnings streams with typical 20-year maturities, and importantly, without exposure to commodity prices and volume risk. Demand for these assets has continued to rise, particularly for those countries seeking to decarbonise themselves or gain greater security for energy supplies.

To be sure, growth will come with its risks and challenges for Sempra. Constantly changing demographics and policy shifts may potentially be some of the major ones. But whatever the challenges may be, investors should take comfort in management's track record of delivering (5-yr adj. earnings CAGR of 16% and the deployment of over \$30bn since 2017). Perhaps most importantly, they have done so in a long-term and risk-averse manner.

Jowell Amores, Portfolio Manager

July 2023

Sources: Company filings.

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