MFG Core Infrastructure Fund

(Managed Fund) (Ticker: MCSI)

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

Fund Update: 31 December 2022

ARSN: 646 028 131

APIR: MGE9182AU

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 Cboe like any other listed security or apply and redeem directly with the Responsible Entity

Fund Facts

Portfolio Manager	David Costello	
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.	
Inception Date^	17 December 2009	
Management Fee[1]	0.50% per annum	
Buy/Sell Spread[1,2]	0.15%/0.15%	
Minimum Investment[2]	AUD$10,000	
Fund Size/NAV Price	AUD $299.9 million / $1.5592 per unit	
Distribution Frequency	Semi-annually	
Cboe Ticker	MCSI	
Tickers	**Solactive iNAV**	**ICE iNAV**
Bloomberg (MCSI AU Equity)	MCSIAIV	MCSIAUIV Index
Refinitiv (MCSI.CHA)	MCSIAUDINAV=SOLA	MCSIAUiv.P
IRESS (MCSI.CXA)	MCSIAUDINAV	MCSI-AUINAV.NGIF

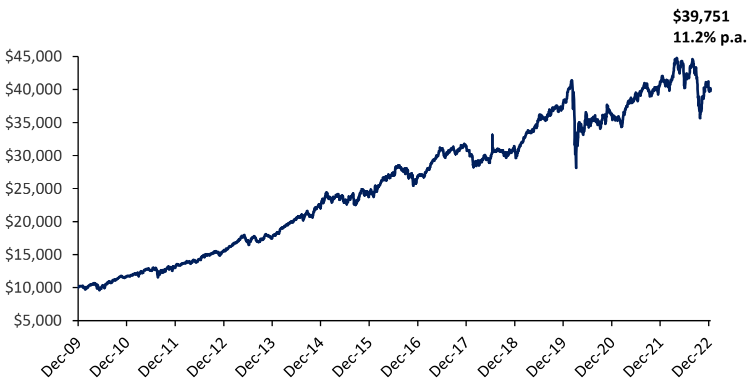
Visit www.mfgcoreseries.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms

[1]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 $0.0288 per unit payable on 18 January 2023.

Performance Chart growth of AUD $10,000*



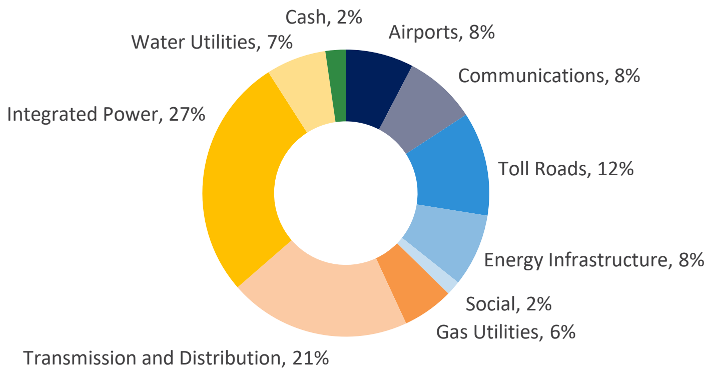
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-2.8	-3.4	0.6
3 Months	5.8	7.2	-1.3
6 Months	-4.7	-0.7	-4.0
1 Year	-5.5	1.3	-6.8
3 Years (p.a.)	1.3	0.5	0.8
5 Years (p.a.)	5.2	3.5	1.7
10 Years (p.a.)	9.8	7.9	1.9
Since Inception (p.a.)	11.2	7.6	3.6

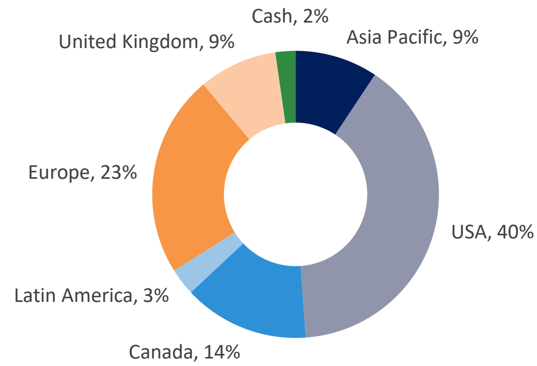
Top 10 Positions

Company	Sector#	%
Vinci SA	Industrials	3.0%
Cellnex Telecom SA	Communication Services	3.0%
Enbridge Inc	Energy	3.0%
National Grid Plc	Utilities	3.0%
TC Energy Corporation	Energy	3.0%
Fortis Inc	Utilities	2.9%
Transurban Group	Industrials	2.9%
Ferrovial SA	Industrials	2.7%
Terna SpA	Utilities	2.3%
Snam SpA	Utilities	2.1%
	TOTAL:	27.9%

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 Net Total Return Index (A$ Hedged) spliced with UBS Developed Infrastructure and Utilities Net Total Return Index (A$ Hedged) prior to 1 January 2015. Note: as the UBS Developed Infrastructure and Utilities Net Total Return Index ($A hedged) ceased to be published from 31 May 2015, it was replaced by Magellan on 1 January 2015 with the S&P Global Infrastructure Net Total Return Index (A$ Hedged).

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.

Fund Commentary

The portfolio recorded a positive return in the December 2022 quarter as the pace of inflation slowed and subsequent interest rate concerns eased for equity investors.

Key stock contributors over the three-month period included Vinci SA, National Grid and Terna SpA. Shares of French toll road company, Vinci SA, rose following reports of better-than-expected performance across key business lines (Concessions and Contracting) that subsequently led to a more optimistic tone from management. National Grid, a UK-based electricity and gas utility, gained as the company issued strong 1H23 results and an upgrade to its 5-year growth guidance. Shares of Italian electricity transmission company, Terna, lifted after positive interim earnings results as well as an upgrade to FY2022 earnings guidance.

Stocks that detracted most during the December 2022 quarter were investments in Algonquin Power & Utilities, Emera, and Dominion Energy. Shares of Canadian-based utility, Algonquin Power & Utilities Corp, declined after publishing disappointing interim results during the period, obliging it to withdraw long-term growth objectives. Emera, a Canadian-domiciled utility, fell on the back of proposed Provincial legislation seeking to limit rate increases to 1.8% per annum through 2024. Meanwhile, US-domiciled electricity and gas utility Dominion Energy fell as the company abandoned their previous guidance as part of a full strategic review of the business.

Stock contributors/detractors are based in local currency terms.

Stock Story: Transurban

While the economic storm of the global financial crisis (GFC) raged in 2008/2009, Transurban's portfolio of Australian toll roads continued to grow traffic volumes or had very muted declines. While it is easy to say Australia was far less affected by the GFC than the rest of the world, the resilience of urban toll roads (where traffic was far less impacted than many other forms of transport infrastructure) was repeated time and again across the globe, even in some of the more affected countries such as Portugal.

Today's storm is of a different making – inflation and interest rates have ravaged markets while recession looms. However, it is the nature of urban toll roads and, by extension, the world's largest urban toll road company, Transurban, that places them in one of the strongest positions as:

- Traffic volumes exhibit little economic sensitivity;
- Tolls are largely inflation linked; and
- Debt costs are predominantly fixed in the short to medium term.

From an underlying traffic point of view, one of the reasons urban toll roads are so resilient is because of the variety of trip types they are used for. Contrary to common belief, prior to the pandemic a Transurban survey in Australia showed only 16% of respondents nominated commuting as the main reason they use toll roads. Urban toll roads allow people to move more easily around the cities they live in and hence traffic on these roads is usually more resilient to an economic downturn.

While today's drivers are different, there are echoes of 2008 in where we stand today. In 2008 inflation in Australia was accelerating on the back of high energy prices (Brent Crude topped US$143 bbl in 2008) and rates were rising until the subprime crisis sent a chill through financial markets.

Today oil prices, inflation and rates are all elevated compared to recent history. However, we believe that Transurban is well placed to benefit from the inflation spike – 68% of its revenue has a direct passthrough of inflation with a further 4% being dynamic pricing (which captures inflation indirectly) – yet its costs are not increasing at the same rate. Most obviously, Transurban's debt is largely fixed and the average debt tenor is seven years, with only around 11% of total proportional drawn debt to be refinanced in the next two years. This means Transurban is getting the benefit of the increased toll from the inflation spike through to the end of its concessions but is likely to pay only a limited amount more in financing costs if the central banks are successful in bringing inflation, and hence interest rates, back under control.

Some investors suggest that the company is not attractive because the yield is now similar to the Australian 10-year bond yield. While we appreciate yield is important for some investors, it should be remembered that yield is one component of shareholder return. At its simplest level, consensus estimates for FY2023 and FY2024 EBITDA growth are more than 10% p.a. With 98% of debt on a fixed interest rate over this period and with an average debt tenor of 7 years, we expect this to translate into even higher cash flow in the short to medium term. Even without this benefit, at a base level, if you assume that the yield remains stable at ≈3.8% and underlying cash flow is growing at > 10%, all else equal we expect that the total return from an investment in Transurban shares should be approximately 13.8%.

One thing investors often forget about Transurban is the significant option value inherent in the portfolio of assets that it has. For example, the existing portfolio of assets operated by Transurban includes several expansionary projects such as the widening of the M7 motorway in Sydney (project approval was announced in late December), the Gateway and Logan motorways in Brisbane, and bidirectional tolling on the I-95 and extension of the I-495 in Virginia, USA amongst others. Incumbency should also provide Transurban with a significant advantage in bidding for new projects in existing markets through scale and informational advantage and should afford it a privileged opportunity to craft solutions for government partners that are also accretive to shareholders, such as a toll increase on the M7 to partly fund NorthConnex.

To paraphrase Benjamin Graham, in the short term the market is a voting machine, in the long term it is a cash flow weighing machine. We believe that consistent growth leading to an ever-expanding weight of underlying cash flows will ultimately be reflected in the stock price.