MFG Core Infrastructure Fund

(Managed Fund) (Ticker: MCSI)

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

MFG CORE SERIES

Fund Update: 31 March 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

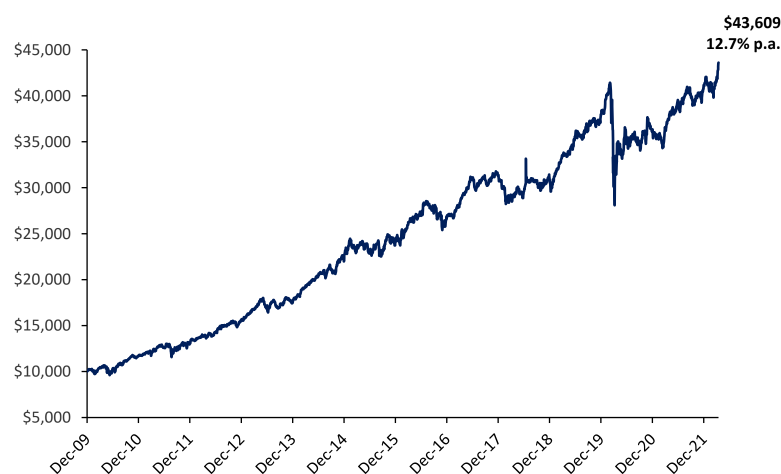
Fund Facts

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 $410.3 million / $1.7407 per unit	
Distribution Frequency	Semi-annually	
Cboe Ticker	MCSI	
Tickers	**Solactive iNAV**	**CE 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.

Performance Chart growth of AUD $10,000*



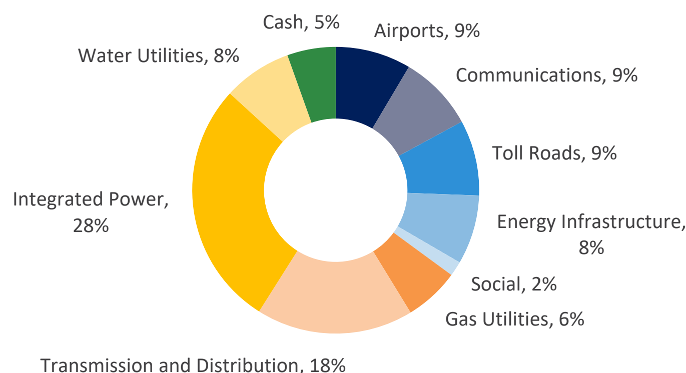
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	6.5	5.5	1.0
3 Months	3.7	7.3	-3.6
6 Months	11.8	12.1	-0.3
1 Year	17.4	17.2	0.2
3 Years (p.a.)	9.0	5.7	3.3
5 Years (p.a.)	8.5	6.1	2.4
7 Years (p.a.)	9.2	5.8	3.4
10 Years (p.a.)	12.1	9.1	3.0
Since Inception (p.a.)	12.7	8.6	4.1

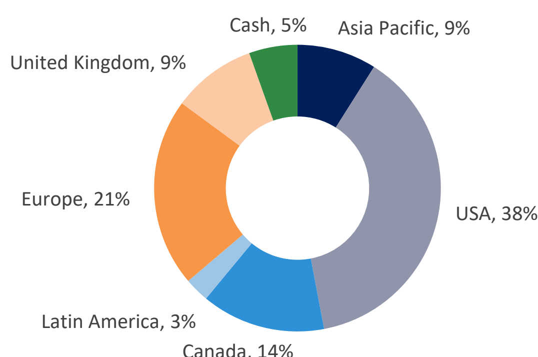
Top 10 Positions

Company	Sector#	%
Vinci SA	Toll Roads	2.9
Cellnex Telecom SA	Communications	2.9
Transurban Group	Toll Roads	2.9
National Grid PLC	Transmission and Distribution	2.9
Enbridge Inc	Energy Infrastructure	2.8
TC Energy Corporation	Energy Infrastructure	2.7
Fortis Inc	Transmission and Distribution	2.7
Aena SME SA	Airports	2.5
Terna SpA	Transmission and Distribution	2.5
Snam SpA	Gas Utilities	2.3
	TOTAL:	27.1

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).

Fund Commentary

The portfolio recorded a positive return in the March quarter. Stocks that contributed the most included the investments in TC Energy Corp and Enbridge of Canada and Sempra Energy of the US. TC Energy was among the energy infrastructure companies that benefited from improving market sentiment as oil and gas prices rose, even though their earnings exhibit little sensitivity to movements in commodity prices. Enbridge, the owner and operator of the world's largest crude oil and liquids transportation system across Canada and the US, gained on a healthy full-year earnings report (gross profit of C$7.7 billion in 2021 versus C$4.2 billion in 2020) and as the oil price rose, despite having very limited direct exposure to the oil price. Sempra Energy rose after investors assessed that one fall-out of the Russia-Ukraine war is faster growth for the energy infrastructure's North American LNG export business.

The stocks that detracted the most were the investments in Cellnex Telecom of Spain and American Tower Corp and Crown Castle International of the US. Cellnex Telecom fell on concerns that inflation will stay elevated, hurting the real earnings power of communications infrastructure assets and increasing the risk of higher long-term policy rates. American Tower and Crown Castle, tower companies that often trade as bond proxies, fell after the Federal Reserve warned of and then in March raised the US cash rate to counter US inflation at a 40-year high.

Stock contributors/detractors are based in local currency terms.

Stock Story: Consolidated Edison

On 16 September 1878, The New York Sun reported that Thomas Edison had discovered a powerful means of producing electric light that promised "to make the use of gas for illumination a thing of the past". The news sparked a sell-off on Wall Street, home to the New York Stock Exchange: the stock of the New York Gas Light Company slumped more than 20% on the day as investors processed the implications of a technology claimed to be capable of providing light at less than 10% of the cost of the carburetted hydrogen gas then in use. Confronted with the risk of its product being rendered obsolete by Edison's invention, the New York Gas Light Company executed a merger with the five rival gas companies operating in New York City in 1884 to enhance its scale and put a stop to the competition between gas companies. In 1901, the merged entity, the Consolidated Gas Company of New York, used its financial resources to acquire a controlling interest in Edison's Electric Illuminating Company. The acquisition, a defensive manoeuvre, would prove transformational: the electrification of New York City and Westchester County delivered a generation of investment and growth that, in 1936, prompted the company to change its name to Consolidated Edison Company of New York.

Nearly 90 years on, another paradigm shift in the way energy is generated and consumed in New York is poised to present Consolidated Edison with a fresh growth opportunity that could be sustained for a generation. With a legislated target to achieve 100% carbon-free electricity by 2040 and economy-wide net-zero carbon emissions by 2050, New York has some of the most ambitious climate targets in the world. To equip its network to deliver this clean energy, support the electrification of the state's heavily emitting transportation and building heat sectors and increase the resilience of its network to the impacts of climate change, Consolidated Edison estimates that it will need to invest about US$68 billion at its key regulated utility subsidiary over the next decade, around two-and-a-half times the level of investment it deployed over the past 10 years. If approved by the regulator, this investment would drive massive growth in Consolidated Edison's 'rate base', a key measure of the company's earnings potential, to which the regulator applies the authorised rate of return when setting customer rates.

Securing approval for and delivering this level of investment will not be without challenges. Consolidated Edison projects that the implementation of its US$68 billion long-range plan will see its revenue requirement, a key component of the total customer bill, increase at a rate of about 8% per annum over 10 years. Sustained bill increases of this magnitude risk raising the ire of the company's customers and its regulators at the New York State Public Service Commission, where a subset of the commissioners that set electricity tariffs have historically advocated for rate increases to be limited to a level broadly in line with inflation. Consolidated Edison has sought to alleviate these concerns, pointing out that the 8% rate of growth in its revenue requirement overstates the impact on household budgets, with electricity charges likely to displace customer spending on gas heating for their homes and gasoline for their vehicles.

If it can navigate these challenges and deliver on its plans, we think Consolidated Edison, a company that traces its beginnings to 1823, will play a crucial role in addressing the greatest issue of the 21st century and reward investors in the process.

Stock Story: Aena

The check-in desks and baggage carousels at Adolfo Suarez Madrid-Barajas Airport, normally so noisy, were quiet in May 2020. Travel restrictions, implemented to slow the spread of the coronavirus, savaged passenger flows across Aena's network of Spanish airports to just over 1% of their level a year prior. Airlines, famed for their challenging economics under the best of conditions, clung to life with the support of government assistance or were forced into bankruptcy. The International Air Transport Association, a trade association for the world's airlines, forecast in June 2020 that global passenger traffic would not recover to pre-pandemic levels until at least 2024. Airports, accustomed to passenger volumes growing at a multiple of GDP and formidable operating margins, closed terminals to reduce operating costs and deferred capital spending, hoping to preserve enough cash to survive until travel resumed. Pessimistic investors fretted that airports would succumb to a liquidity crisis if lenders refused to refinance their debt. More sanguine investors reasoned that airports were too important to the national interest to fail but were left to mull the risk that government equity injections could dilute their investments.

Almost two years from the onset of the pandemic, the worst fears of listed airport investors have dissipated: lenders obligingly refinanced airport debt, sometimes at rates below legacy issuances, and in general airports were able to endure the most desolate phase of the crisis without needing extraordinary government assistance.

Recent industry data may see airport investors' relief turn to optimism. Passenger numbers at Aena's airports increased to 73% of their pre-pandemic level in February 2022, ahead of management's guidance for full-year traffic to recover to 68% of 2019 activity levels. Moreover, an Aena statement in March reveals that airlines have scheduled 215.6 million seats at the company's airports during the forthcoming summer season, about 1% more than were scheduled during the corresponding period in 2019 before the onset of the pandemic. While Aena cautions that the scheduling of seats and movements remains subject to change by the airlines, the announcement points to the possibility of a materially faster recovery in aviation activity than investors anticipate.

That bodes well for Aena, the world's largest airport operator in terms of passenger traffic that generated 2.4 billion euros in revenue in fiscal 2021. The majority-Spanish-government-owned company earned that title, prior to the pandemic, by shuffling 275 million passengers through Spain's 46 airports and two heliports and another 18 million people through its 51%-owned Luton airport in the UK, one of the 45 airports outside Spain in which Aena has a direct or indirect holding. At all these airports, there are lots of people making lots of noise, glad to be travelling again.

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