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: 30 September 2021

MFG CORE SERIES

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 Chi-X like any other listed security or apply and redeem directly with the Responsible Entity

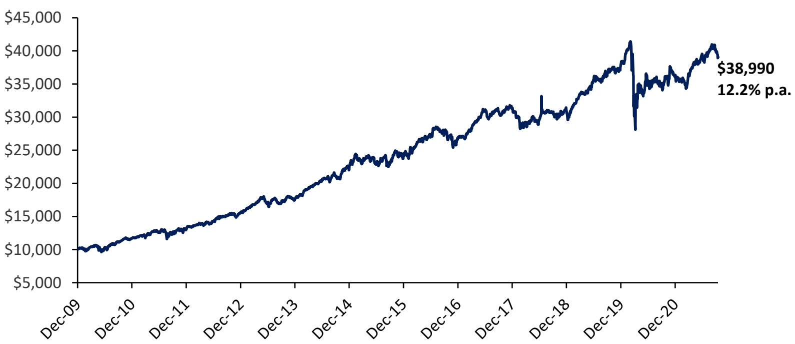
Fund Facts

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 $360.2 million / $1.5831 per unit	
Distribution Frequency	Semi-annually	
Chi-X 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.

Performance Chart growth of AUD $10,000*



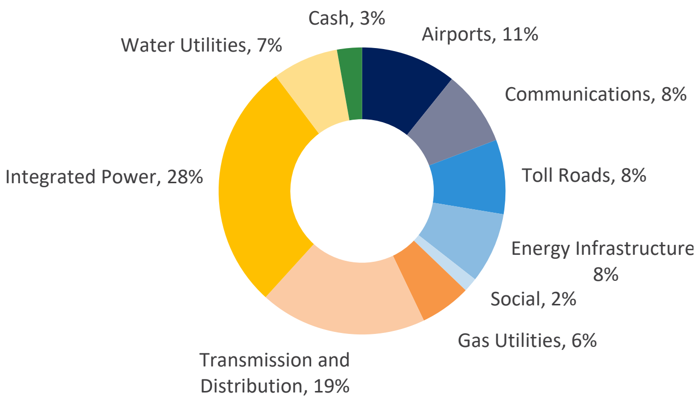
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-3.5	-0.6	-2.9
3 Months	2.0	2.7	-0.7
6 Months	5.0	4.5	0.5
1 Year	11.8	21.1	-9.3
3 Years (p.a.)	8.8	4.8	4.0
5 Years (p.a.)	7.0	4.8	2.2
7 Years (p.a.)	9.3	5.7	3.6
10 Years (p.a.)	11.8	8.8	3.0
Since Inception (p.a.)	12.2	7.9	4.3

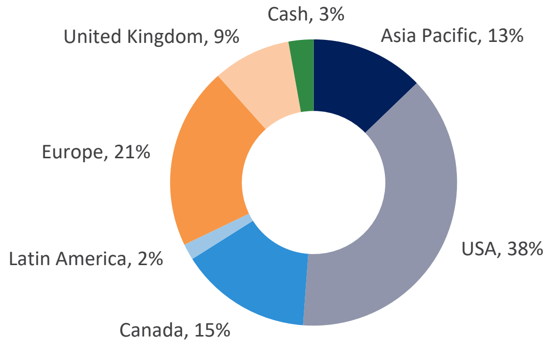
Top 10 Positions

Company	Sector#	%
Transurban Group	Toll Roads	3.1
Vinci SA	Toll Roads	3.1
Enbridge Inc	Energy Infrastructure	3.1
Sydney Airports	Airports	3.0
Fortis Inc	Transmission and Distribution	2.9
TC Energy Corporation	Energy Infrastructure	2.9
Cellnex Telecom SA	Communications	2.9
National Grid PLC	Transmission and Distribution	2.8
Aena SME SA	Airports	2.5
Emera Inc	Integrated Power	2.2
	TOTAL:	28.5

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). 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. Exposures may not sum to 100% due to rounding.

Fund Commentary

The portfolio recorded a positive return in the September quarter. Stocks that contributed the most included the investments in Sydney Airport, AusNet Services and Aena of Spain. Sydney Airport surged following a A$24 billion takeover offer from a consortium led by the infrastructure manager IFM. AusNet soared on news that Canadian asset manager, Brookfield Asset Management, and Australian gas-pipeline operator, APA Group, were engaged in a battle to acquire the owner of Victoria's transmission grid. Aena, the world's largest airport operator, gained as countries relaxed pandemic restrictions that inhibit travel.

The stocks that detracted the most were the investments in Crown Castle International of the US, National Grid of the UK and Royal Vopak of the Netherlands. Crown Castle, a US-based owner of telecom towers, fell due to increasing concerns around inflation. National Grid slid as the yield on 10-year UK gilts spiked to their highest level in more than two years, prompted by concerns that rapidly rising wholesale gas prices would give rise to higher inflation expectations. National Grid's relatively benign systematic risk profile and long duration render it particularly sensitive to movements in interest rates. Vopak slid after the storage operator's first-half earnings report disappointed.

Stock contributors/detractors are based in local currency terms unless stated otherwise.

Stock Story: Xcel Energy

Xcel Energy is a US electricity and gas utility that is leading the transition towards clean energy. The utility that earned US$11.5 billion in revenue from servicing 3.7 million electricity and 2.1 million gas customers across eight mid-western US states has declared it will provide 100% carbon-free electricity by 2050, making it the first large US utility to declare such an intention.

While that might seem so far off as to be meaningless, by the end of 2020 about 47% of the energy Xcel Energy produced already came from carbon-free sources.

Such progress means Xcel Energy has reduced carbon emissions by 51% since 2005 and the company intends that percentage to reach 80% by 2030. To get there, Xcel Energy will retire its coal-fired plants, preserve its nuclear assets, maintain natural gas as a backup and build large renewable projects. As the company operates in a windy part of the US (across Colorado, Minnesota where it is based, New Mexico, North Dakota, Michigan, South Dakota, Texas, and Wisconsin), the renewable focus is wind farms.

To understand why Xcel Energy's drive to a cleaner future is of interest to investors it helps to understand the regulatory environment that governs utilities. The quid pro quo under the regulatory regime is that utilities are granted the monopoly right to provide their services to a defined territory in exchange for having the return on capital spending capped. The easiest way, therefore, for a utility to increase earnings is to spend more on capital works, so long as they ensure that prices stay affordable for customers. Basically, Xcel Energy is a promising investment because regulators approve capital spending that alleviates any damage from climate change.

Xcel Energy's spending plans can be split into two categories, where its investments in renewable technologies is one. The company is pivoting to wind farms because the cost of electricity generated by these assets has declined by almost 70% on average over the past decade. Because the wind is free, the company is well placed to grow shareholder returns without increasing bills for customers as it spends more than US$3.6 billion building wind farms over the next five years.

The other category is unrelated to climate change but is vital for Xcel Energy to provide its essential services. The company needs to replace ageing transmission and distribution infrastructure, especially power lines, to ensure the electrical grid functions properly. Nearly 25% of the company's 32,000 kilometres of transmission lines have exceeded their useful lives and close to another 20% will need replacing over the next decade. Xcel Energy is likely to spend more than US$10 billion over the next 15 years on new lines.

The company's approved capital spending over the coming decade means that investors can be confident the utility will achieve its long-term earnings growth objective of 5% to 7%, as it has in recent years while keeping customer bills low.

Sources: Company website, 2020 annual report.

Stock Story: SBA Communications

US-based SBA Communications is a leading independent owner and operator of wireless-communications infrastructure, including tower structures, rooftops and other structures that support antennas deployed by mobile network operators to enable the provision of voice, data and video services. The Florida-based company, which was founded in 1989 and operates more than 33,000 communication sites in 14 countries, offers investors a defensive investment exposure that is likely to benefit from the extraordinary growth in mobile data consumption driven by adoption of bandwidth-intensive applications, including video, social media, enhanced web browsing, and machine-to-machine communication.

SBA Communications's defensive properties stem from its profound competitive advantages and an inherently resilient business model. With little overlap in the coverage footprint of existing towers and new construction limited by zoning regulations, the mobile network operator tenants struggle to foster competitive tension among owners of infrastructure. This inequality of bargaining power yields contractual terms that overwhelmingly favour the infrastructure owner: site leases over the SBA Communications towers are generally struck with an initial term of five to 10 years and contain fixed rent increases averaging 3% to 4% per annum in North America and Central America, while rents over the company's South American and South African assets are tethered to local inflation. Moreover, the strategic positioning of the SBA Communications assets and the meaningful switching costs borne by mobile-network operators attempting to reconfigure their networks have historically supported low levels of tenant lease terminations. These favourable terms confer on SBA Communications predictable, recurring revenues, and support tower cash flow margins above 80%. (SBA Communications defined tower cash flow margins as tower cash flow divided by cash site leasing revenue less revenue from pass-through reimbursable expenses.)

Expectations of continued rapid growth in mobile devices and demand for data position SBA Communications to deliver meaningful growth in cash flows. Ericsson, the Swedish telecommunications company, projects that global mobile-data traffic will increase about 4.5 times over the period to 2026, supported by the rollout of 5G technology in mature markets and the increased penetration of smart devices in developing economies. Critically, this rapid growth in demand for data will require mobile-network operators to develop new spectrum and increase the capacity of their networks, necessitating the installation of antenna equipment at new sites and the addition of incremental equipment to existing sites.

SBA Communications expect this activity to support long-term net organic lease revenue growth in excess of 5% per annum in the US and high-single-digit to low-double-digit revenue growth in its international markets. The relatively fixed nature of SBA Communications's operating costs imply that this growth is likely to deliver highly attractive incremental returns on capital.