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 2022

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

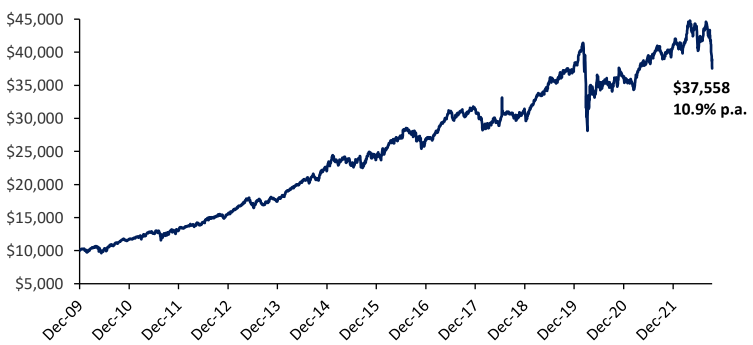
Fund Facts

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 $276.6 million / $1.4732 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.

Performance Chart growth of AUD $10,000*



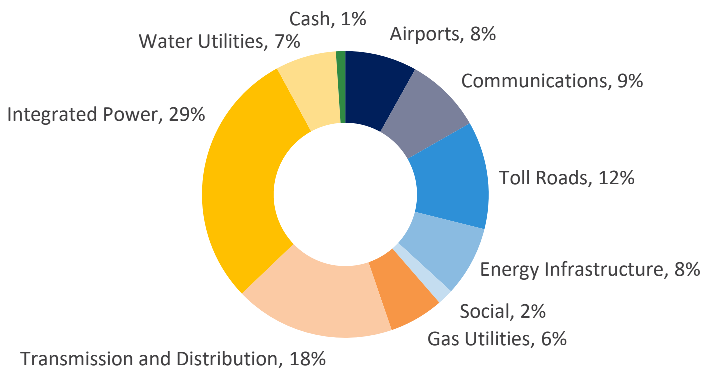
Performance*

	Fund (%)	Index (%)**	Excess (%)
1 Month	-11.6	-10.6	-1.0
3 Months	-9.9	-7.3	-2.6
6 Months	-13.9	-11.9	-2.0
1 Year	-3.7	-1.2	-2.5
3 Years (p.a.)	0.3	-0.9	1.2
5 Years (p.a.)	4.4	2.4	2.0
7 Years (p.a.)	6.7	5.2	1.5
10 Years (p.a.)	9.5	7.3	2.2
Since Inception (p.a.)	10.9	7.2	3.7

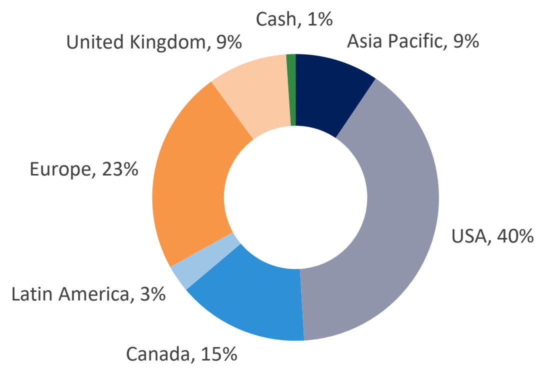
Top 10 Positions

Company	Sector#	%
Cellnex Telecom SA	Communications	3.1
Vinci SA	Toll Roads	3.1
National Grid Plc	Transmission and Distribution	3.0
Transurban Group	Toll Roads	2.9
TC Energy Corporation	Energy Infrastructure	2.9
Enbridge Inc	Energy Infrastructure	2.8
Fortis Inc	Transmission and Distribution	2.8
Ferrovial SA	Toll Roads	2.8
Emera Inc	Integrated Power	2.4
Terna SpA	Transmission and Distribution	2.2
	TOTAL:	28.0

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 negative return in the September quarter when higher interest rates reduced the appeal of safer equities. The stocks that detracted the most were the investments in TC Energy of Canada, Snam of Italy and Transurban of Australia. TC Energy fell on news delivered in late July that the company had increased by 70% the estimated cost of building the Coastal GasLink pipeline. The energy company said covid-19-related delays and protests against the pipeline had boosted the cost of building the link to a new liquefied natural gas facility on Canada's west coast. Snam fell when Italian bond yields rose after Italy headed to a snap election after Prime Minister Mario Draghi quit when three parties in his coalition sat out a vote of confidence in his government. Transurban declined after its full-year fiscal 2022 result and distribution target for fiscal 2023 (of 53 Australian cents per unit; +30% approximately) disappointed.

The two stocks that contributed the most were the investments in Aguas Andinas of Chile and Zurich Airports. Aguas Andinas rose as voters rejected a left-leaning constitution that could have had repercussions for the water utility. Zurich Airport gained after first-half earnings came in at a higher-than-expected 238.3 million Swiss francs as revenue also topped analyst estimates.

Stock contributors/detractors are based in local currency terms.

Stock Story: SNAM

In May, Snam paid US$350 million for Italy's first floating regasification unit. Such vessels convert liquefied natural gas brought by ship into gas suitable for transporting within the 41,000 kilometres of pipelines that the Italian gas network operator owns and operates in its homeland, as well as in Austria, France, Greece and the UK.

In July, Snam purchased another floating unit for US$400 million. The object of the spending is to help gas-import-dependent Italy cut its reliance on the Russian gas that supplied about 40% of the country's gas before the Ukraine War. Italy has already reduced its reliance on Russian gas to 25% of imports.

Such steps are tied to the energy crisis spurred by Russia's invasion of its neighbour and Moscow's subsequent moves to curtail gas deliveries in retaliation for sanctions. Snam, which earned 3.3 billion euros in revenue in fiscal 2021 (about 70% of which came from transporting gas and another 16% from storage), is poised to benefit from investment opportunities as it helps Italy turn to other countries to obtain gas.

The challenges for Snam posed by Europe's energy crisis are formidable, especially as it has had to work to ensure adequate storage levels are reached in its facilities for the coming winter. However, the task is made easier by the way Snam, as a provider of an essential service, is regulated. As an economically regulated utility, Snam's revenue is not expected to drop noticeably, as less than 1% of Snam's revenue is linked to gas volumes. Earnings are instead tied to the level of investment by Snam into the network (which is known as the 'regulated asset base') and allowed return on capital the regulator sets on this spending. This framework provides predictability and stability to the company's earnings outlook. Further, the invested capital is indexed to inflation over time, providing a protection of real earnings power for investors.

Snam's opportunity is that the Italian government is driving the push to divert the source of the country's energy supplies and this initiative requires investment. The company's spending on the floating regasification plants, for instance, earns a decent and dependable return for investors. There are likely to be other such investments required to manage the changed pattern of gas flows across the country.

Longer term, Snam will benefit from the drive to renewables. The company is expected to have a role in the transportation and storage of green gases such as biomethane and hydrogen – both considered important planks in the energy transition in Europe for hard-to-abate sectors such as industrial and heating. While this is a long-term opportunity, Snam is already flagging that it expects to spend more than 8 billion euros on developing infrastructure for the green switch.

Biomethane is a sustainable natural gas made from waste biomass such as agricultural by-products, animal droppings, dedicated crops and food waste. Green hydrogen is touted as a key part of the drive to net-zero emissions because electrolysers that split water into its two elements of hydrogen and oxygen produce emissions-free energy. Snam's gas infrastructure means the company is set for any transition to hydrogen.

In a world of energy crises and the shift to renewables, Snam's dependable regulated returns and its ability to expand its regulated asset base means the company offers the regular income and growth potential that the Magellan infrastructure team demands of stocks included in its portfolio.

Snam comes with risks, of course. The main longer-term one is that renewably sourced electricity might reduce household and business demand for natural gas by more than expected. A shorter-term risk is Snam maintaining its standing in the community to ensure regulators don't come under political pressure to lower Snam's allowable return if the company is seen to be benefiting from the energy crisis.

Each new regasification unit that helps Italy battle through Europe's energy crisis, however, boosts Snam's public standing and, as that rate base expands, its standing among investors too.