Fund Update: 30 June 2022

Marketing Communication

MFG ASSET MANAGEMENT

MFG Select Infrastructure Fund - Class 1

Key Facts

Portfolio Manager	Gerald Stack
Fund Inception Date	30 December 2016
Total Select Infrastructure Assets[1]	USD $6,584.7 million
Fund Size	USD $293.8 million

Objective

Seek to achieve attractive risk-adjusted returns over the medium to long-term while reducing the risk of permanent capital loss

Approach

Concentrated 20-40 stock portfolio applying MFG Asset Management's proprietary infrastructure classification

Valuation driven benchmark-unaware strategy

Highly defensive, inflation-linked exposure

Past performance does not predict future returns.

3 year rolling returns (measured monthly)[2]

Against S&P Global Infrastructure NTR Index	1 Year	Since Inception[3]
No. of observations	12	31
Average excess return (% p.a.)	-0.4	1.8
Outperformance consistency	25%	71%

USD Performance#

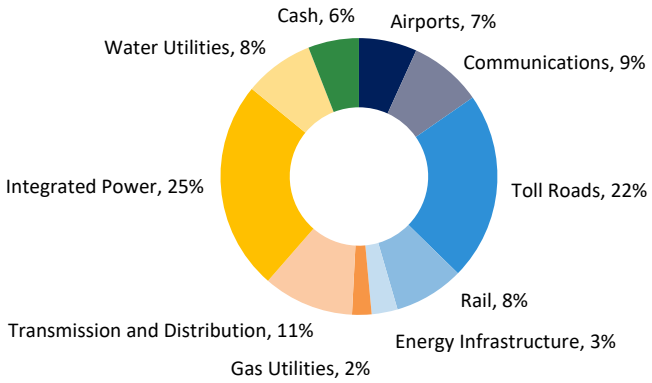
	Fund (before fees)	Fund (after fees)[4]	S&P Global Infrastructure NTR Index
1 Month (%)	-6.0	-6.0	-7.8
3 Months (%)	-7.5	-7.7	-7.7
1 Year (%)	2.5	1.7	4.8
3 Years (% p.a.)	2.2	1.4	2.7
5 Years (% p.a.)	5.6	4.8	3.9
Since Inception (% p.a.)	7.9	7.1	6.0

	Fund (before fees)	Fund (after fees)[4]	S&P Global Infrastructure NTR Index
2017 (%)	24.2	23.2	19.1
2018 (%)	-4.8	-5.5	-10.4
2019 (%)	26.9	25.9	25.8
2020 (%)	-5.9	-6.7	-6.5
2021 (%)	13.4	12.5	11.0
2022 CYTD (%)	-5.1	-5.5	-0.9

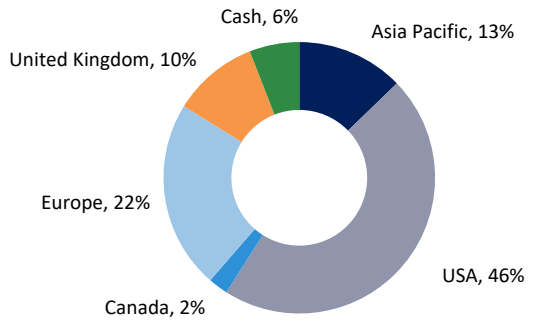
Top 10 Holdings

	Sector[5]	%
Transurban Group	Toll Roads	8.0
Vinci SA	Toll Roads	6.1
Dominion Energy Inc	Integrated Power	5.1
United Utilities Group Plc	Water Utilities	4.5
Sempra Energy	Integrated Power	4.5
American Tower Corporation	Communications	4.4
Crown Castle International	Communications	4.1
Atlantia SpA	Toll Roads	4.1
Atlas Arteria	Toll Roads	3.8
Eversource Energy	Transmission and Distribution	3.7
	TOTAL:	48.3

Sector Exposure[5]



Geographical Exposure[5]



[1] Comprised of all Select Infrastructure strategies.
[2] Rolling 3-year returns are calculated after fees and rolled monthly for the duration of each period shown. The average excess return is then calculated for each period, with the outperformance consistency indicating the percentage of positive excess returns.
[3] Inception date of the Fund (Class 1) is 30 December 2016.
[4] Management fee for the Fund is 0.80% per annum.
[5] Sectors are internally defined. Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.
Shares are denominated in USD. This presents certain risks relating to currency conversion if an investor's financial activities are denominated principally in a different currency, for example, Euro. These include the risk that exchange rates may significantly change. An increase in the value of the investor's currency against USD would decrease the investor's currency equivalent value of the Net Asset Value and Net Asset Value per Share.
* Part year return.

Fund Commentary

The Fund recorded a negative return in the June quarter. The stocks that detracted the most were the investments in Aena of Spain and Norfolk Southern and CSX, two railroad companies from the US. Aena slid after the world's largest airport operator, despite a strong traffic recovery, reported disappointing earnings for the first quarter on the back of higher energy prices. Norfolk Southern and CSX slid on rising talk that tighter monetary policy could send the US economy into a recession, which would hurt railroad volumes, even though railroaders overall reported encouraging results for the first quarter. Norfolk Southern, for instance, posted operating revenue of US$2.9 billion, an increase of 12%.

Stocks that contributed the most included the investments in Atlantia of Italy and Atlas Arteria and Transurban of Australia. Atlantia surged after the Benetton family, the largest shareholder in the motorway and airport infrastructure company with a 33% stake, announced a takeover of 23 euros a share to take the company private. Atlas Arteria, which operates four toll roads across France, Germany and the US, rose after Australian-based IFM Investors took a stake in the company and commenced discussions over a potential take-private transaction. Transurban rose as traffic numbers recovered to pre-pandemic levels and the tollway operator likewise benefited from the inflation protection tollways offer investors.

Stock contributors/detractors are based in local currency terms

Stock Story: Atlantia

During 2021, Italian infrastructure group Atlantia agreed to sell its 88% stake in tollway-operator Autostrade per l'Italia for an estimated €8 billion. This asset was previously considered the key asset within Atlantia's business.

This sale followed a period in which the company had found itself facing off against the Italian government due to a tragic event. In 2018, the Morandi Bridge in Genoa collapsed, killing 43 people. The bridge was managed by Autostrade under its concession agreement. Conflict with the government escalated quickly, and Rome threatened to revoke Autostrade's concession. While we considered that Atlantia at its core was a stable, quality infrastructure operation, the risks during this period created so much uncertainty we no longer considered the company a conservative and reliable infrastructure investment.

The sale of Autostrade, however, meant the quality of Atlantia's remaining assets became the focus. Furthermore, the company would now be receiving significant proceeds from the sale allowing management to undertake targeted investment opportunities and a buyback to return capital to shareholders.

Post the sale of Autostrade, the key assets for Atlantia include toll roads, airports and adjacent mobility businesses. The Abertis Group, an important operator in global toll road markets, is jointly owned by Atlantia and Spanish construction company ACS. This group controls a diversified portfolio of motorway concessions that make Atlantia responsible for the development, maintenance and operation of about 7,800 kilometres of tollways across four continents, operating in countries such as Brazil, Chile, France, India, Italy, Mexico, Spain and the US. Atlantia also holds a portfolio of toll road assets separate from its operations in Abertis, which we consider provide it with additional exposure to the long-term growth characteristics of these assets.

Another important asset for the Atlantia group is Aeroporti di Roma, which operates Rome's main airports. This is operated under a long-term agreement extending to 2046, which we think will provide an attractive long-term exposure to the global aviation market, along with the post-covid recovery in traffic.

Atlantia has also developed adjacent mobility businesses such as Telepass, which operates electronic-tolling and other transport-payment systems such as car parks and restricted traffic zones in Europe. In January this year, Atlantia bought Siemens' road traffic unit, Yunex Traffic, for €950 million. Yunex Traffic makes traffic lights and associated software systems and Atlantia took interest in this company as it provided a good fit with Atlantia's strategy to expand its technology product offerings. While Magellan does not consider these businesses to be pure infrastructure, we think assets such as Telepass have proven to be an attractive opportunity for the Atlantia business over time.

We weren't the only investors who noted the strength of Atlantia's assets post the Autostrade sale. Private-equity investors and strategic buyers soon circled. The largest shareholder on the Atlantia register, the Benetton-backed Edizione, in April this year was drawn to make an offer. Edizione teamed with US-based buyout specialist Blackstone Group to make a €19 billion bid for the remaining shares of the company.

While the buy-out offer for Atlantia has not reached a conclusion, we think the situation demonstrates the widespread appeal of high-quality infrastructure assets that provide long-term, stable and growing cash flow streams to investors.

Sources: Dunn & Bradstreet, Bloomberg and company filings.

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An investment in shares of the Fund does not represent a direct interest in any of the underlying assets owned by the Fund which may be freely acquired and disposed of by MFG Asset Management for and on behalf of the Fund.

The Fund will invest in companies that generate the dominant part of their earnings from the ownership of infrastructure assets and the Fund's portfolio of 20 to 40 investments is designed to provide sufficient diversification so that investors are not overly correlated to any single company, industry segment-specific or macroeconomic risk. The Fund is actively managed, meaning that investment decisions are made on a fully discretionary basis. The performance of the Fund is measured against the S&P Global Infrastructure Net Total Return Index. Therefore, the Fund can be said to be managed by reference to the S&P Global Infrastructure Net Total Return Index, but as a performance reference benchmark only. The S&P Global Infrastructure Net Total Return Index is a market capitalisation weighted index that is designed to track 75 companies from around the world diversified across three infrastructure sectors energy, transportation and utilities. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. Further information regarding any benchmark referred to herein can be found at www.mfgam.com.au.

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