# MFG Select Infrastructure Fund - Class 1

MFG ASSET MANAGEMENT

MARKETING COMMUNICATION

AS AT 30 SEPTEMBER 2024

**PORTFOLIO MANAGER** GERALD STACK

### INVESTMENT PHILOSOPHY

To prudently invest in outstanding infrastructure and utilities companies at attractive prices that exhibit highly predictable cashflows.

### OBJECTIVES

To seek to achieve attractive risk-adjusted returns over the medium to long term; while reducing the risk of permanent capital loss.

### PORTFOLIO CONSTRUCTION

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

Valuation driven strategy; portfolio construction is not constrained by an index.

Typical cash and cash equivalents exposure between 0 – 20%.

## MFG SELECT INFRASTRUCTURE FUND - CLASS 1

| FUND SIZE | TOTAL SELECT INFRASTRUCTURE ASSETS[1] | MANAGEMENT FEES | INCEPTION DATE |
|---|---|---|---|
| USD $64.2 million | USD $5,078.4 million | Management fee for the Fund is 0.80% per annum | 30 December 2016 |

### USD PERFORMANCE[#]

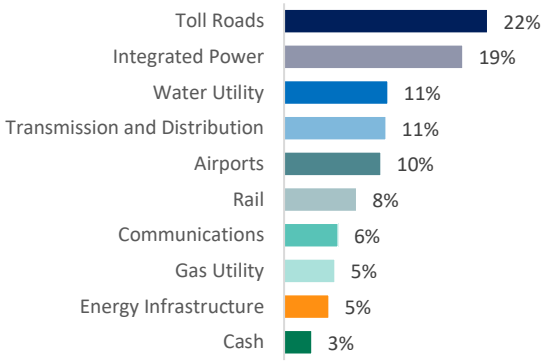
| | 1 Month (%) | 3 Months (%) | 1 Year (%) | 3 Years (% p.a.) | 5 Years (% p.a.) | 7 Years (% p.a.) | Since Inception[2] (% p.a.) | OUTPERFORMANCE CONSISTENCY[3] |
|---|---|---|---|---|---|---|---|---|
| **MFG Select Infrastructure Fund - Class 1 (Before Fees)** | 3.1 | 14.3 | 27.5 | 6.9 | 4.4 | 6.1 | 7.9 | 48% |
| **MFG Select Infrastructure Fund - Class 1 (After Fees)** | 3.0 | 14.0 | 26.4 | 6.0 | 3.6 | 5.3 | 7.0 | 40% |
| **S&P Global Infrastructure NTR Index** | 3.8 | 13.2 | 29.7 | 8.6 | 6.0 | 5.5 | 7.2 | - |

### CALENDAR YEAR RETURNS

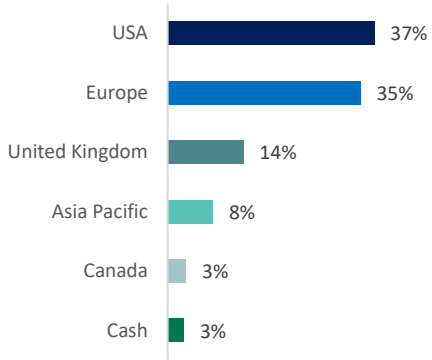
| | CYTD (%) | 2023 (%) | 2022 (%) | 2021 (%) | 2020 (%) | 2019 (%) | 2018 (%) | 2017 (%) |
|---|---|---|---|---|---|---|---|---|
| **MFG Select Infrastructure Fund - Class 1** (Before Fees) | 12.0 | 7.9 | -7.1 | 13.4 | -5.9 | 26.9 | -4.8 | 24.2 |
| **MFG Select Infrastructure Fund - Class 1** (After Fees) | 11.4 | 7.0 | -7.8 | 12.5 | -6.7 | 25.9 | -5.5 | 23.2 |
| **S&P Global Infrastructure NTR Index** | 17.1 | 5.8 | -1.0 | 11.0 | -6.5 | 25.8 | -10.4 | 19.1 |

Past performance does not predict future returns.

### SECTOR EXPOSURE[4]




### GEOGRAPHICAL EXPOSURE[4]

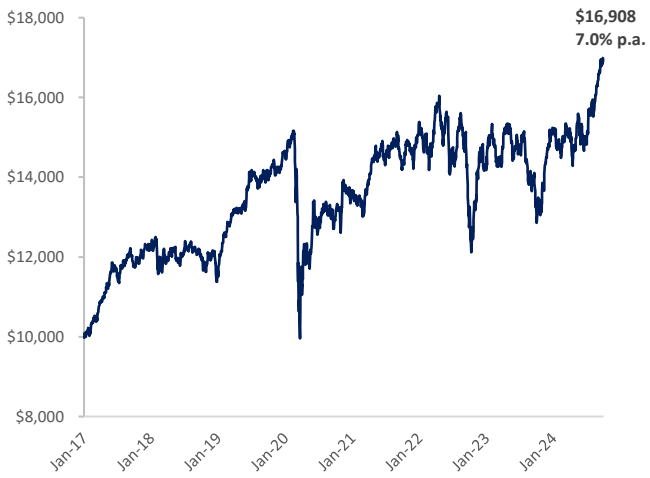



[1] Comprised of all Select Infrastructure strategies managed by MFG Asset Management.
[2] Inception date of the Fund (Class 1) is 30 December 2016.
[3] Outperformance consistency indicates the percentage of positive excess returns for rolling 3 year returns since inception.
[4] Sectors are internally 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.

## TOP 10 HOLDINGS

| STOCK | SECTOR[4] | % |
|---|---|---|
| Aena SME SA | Airports | 7.0 |
| Ferrovial SE | Toll Roads | 6.3 |
| Vinci SA | Toll Roads | 5.9 |
| Severn Trent | Water Utility | 5.5 |
| United Utilities Group Plc | Water Utility | 4.5 |
| Sempra Energy | Integrated Power | 4.4 |
| Transurban Group | Toll Roads | 4.3 |
| Xcel Energy Inc | Integrated Power | 4.3 |
| Dominion Energy Inc | Integrated Power | 4.0 |
| CSX Corporation | Rail | 3.9 |
| | TOTAL: | 50.1 |

## PERFORMANCE CHART GROWTH OF USD $10,000[5]




Past performance does not predict future returns.

## CAPITAL PRESERVATION MEASURES[6]

| ADVERSE MARKETS | 3 Years | 5 Years | 7 Years | Since Inception |
|---|---|---|---|---|
| No of observations | 14 | 21 | 28 | 28 |
| Outperformance consistency | 57% | 52% | 61% | 61% |
| Average return - Fund (%) | -4.3 | -4.5 | -3.6 | -3.6 |
| Average return - Index (%) | -4.4 | -4.5 | -4.4 | -4.4 |
| Down Market Capture | 1.0 | 1.0 | 0.8 | 0.8 |
| **DRAWDOWN** | | | | |
| Maximum Drawdown - Fund (%) | -18.8 | -22.2 | -22.2 | -22.2 |
| Maximum Drawdown - Index (%) | -16.8 | -30.4 | -30.4 | -30.4 |

[5] Growth of USD $10,000 is calculated using USD returns after fees and since inception.
[6] Capital preservation measures are calculated before fees. An adverse market is defined as a negative monthly return for the MSCI World NTR Index (USD). Down market capture shows how the fund performed relative to the index while the market is falling.

## IMPORTANT INFORMATION

MFG Select Infrastructure Fund - Class 1 ('**Fund**') is a sub-fund of MFG Investment Fund plc, an open-ended umbrella fund with segregated liability between sub-funds, which is incorporated in Ireland and authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (as amended). This is a marketing communication and is not a contractually binding document. Please refer to the Prospectus of MFG Investment Fund plc and the Supplement and KIID for the Fund and do not base any final investment decision on this communication alone. The Prospectus, Supplement, KIID and a summary of investor rights are available in English at www.magellangroup.com.au. For investors located in Germany, the KIID is available in German at www.magellangroup.com.au.

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The investment program of the Fund presented herein is speculative and may involve a high degree of risk. It is not intended as a complete investment program and is suitable only for sophisticated investors who can bear the risk of loss. The Fund may lack diversification, which can increase the risk of loss to investors. The Fund's performance may be volatile. The past performance of the Fund is not necessarily indicative of future results and no person guarantees the performance of the Fund or the amount or timing of any return from it. There can be no assurance that the Fund will achieve any targeted returns, that asset allocations will be met or that the Fund will be able to implement its investment strategy or achieve its investment objective. This document may contain 'forward-looking statements'. Actual events or results or the actual performance of a Fund may differ materially from those reflected or contemplated in such forward-looking statements. The management fees, incentive fees and allocation and other expenses of the Fund will reduce trading profits, if any, or increase losses. The Fund will have limited liquidity, no secondary market for interests in the Fund is expected to develop and there are restrictions on an investor's ability to withdraw and transfer interests in the Fund. In making an investment decision, you must rely on your own examination of any offering documents relating to the Fund.

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/funds/benchmark-information/. Any third-party trademarks contained herein are the property of their respective owners and MFG Asset Management claims no ownership in, nor any affiliation with, such trademarks. Any third-party trademarks that appear in this material are used for information purposes and only to identify the company names or brands of their respective owners. No affiliation, sponsorship or endorsement should be inferred from the use of these trademarks.

## Fund Commentary

The portfolio recorded a significant positive return in the September quarter. Top contributors included the investments in Xcel Energy, Norfolk Southern and Dominion Energy.

Utility stocks benefited during the quarter as the market re-assessed the defensive and reliable return characteristics of these companies.

Xcel Energy, a diversified US utility operating across several states including Minnesota, Colorado, New Mexico and Texas, performed strongly during a quarter where it released a result in line with expectations and regulatory development was supportive for the company.

Another US utility, Dominion Energy saw a strong share price reaction. The company delivered an important set of 'in line' quarterly figures, an important step in its efforts to regain investor confidence after a recent history of missing investor expectations and as the business worked through several legacy corporate constraints.

Important contributors during the quarter also included US freight rail operator Norfolk Southern. Norfolk Southern performed well as the company delivered a healthy quarterly result that exceeded expectations on cost developments and service metrics. During the period, the CEO was removed from the company, having previously survived a proxy battle with activist investors.

During a broadly positive period for infrastructure share price movements, there were no detractors from the portfolio.

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

## Outlook

Notwithstanding our expectations for greater volatility in the short to medium term driven by inflation and interest rates, we are confident that the underlying businesses we have included in our defined universe and in our investment strategy will prove resilient over the longer term. We regard the businesses we invest in to be of high quality and, while short-term movements in share prices reflect issues of the day, we expect that share prices in the longer term will reflect the underlying cash flows leading to investment returns consistent with our expectations.

The strategy seeks to provide investors with attractive risk-adjusted returns from infrastructure securities. It does this by investing in a portfolio of listed infrastructure companies that meet our strict definition of infrastructure at discounts to their assessed intrinsic value. We believe that infrastructure assets, with requisite earnings reliability and a linkage of earnings to inflation, offer attractive, long-term investment propositions. Furthermore, we believe the resilient nature of earnings and the structural linkage of those earnings to inflation means that investment returns typically generated by infrastructure stocks are different from standard asset classes and offer investors diversification when included in an investment portfolio. In the current uncertain economic and investment climate, the historically reliable financial performance of infrastructure investments makes them attractive, and an investment in listed infrastructure has the potential to reward patient investors with a long-term time frame.

## Stock Story – Vopak

(David Costello – Portfolio Manager)

Vopak

Royal Vopak, a titan in the global tank storage industry, boasts a rich history, tracing its roots to storehouses at the ports in Amsterdam and Rotterdam in the 17th century, storing spices, tea, coffee, tobacco, margarine fats and other staples for the Dutch East India Company. Adapting to the shifting tides of global trade, one of Vopak's corporate forebears accepted its first shipment of petroleum for storage in 1862. As global demand for crude oil and refined petroleum products surged in the early 20th century, fuelled by the rise of the automobile, the storage of oil products and liquid chemicals would emerge as one of the Group's core activities. A spate of industry consolidation starting in the late 1960s and continuing into the 1990s conferred economies of scale, enabling the Group's expansion into international markets. A period of dramatic growth in Vopak's global storage capacity followed in the early 2000s, with the company investing heavily to serve rapid growth in demand fuelled by China's astonishing economic ascent and the burgeoning liquified natural gas industry. Today, Vopak operates a global network of more than 70 storage terminals in 21 countries. Its network represents a critical link in the global supply chain, with the company's strategically positioned terminals on key maritime trade routes, enduring relationships with customers and unrivalled environmental and safety credentials conferring a leading position in the global market for the storage of oil, gas, chemicals and refined industrial products. This advantaged position within the global trade ecosystem, in turn, sustains consistently high levels of utilisation for the company's assets, supporting the generation of reliable cash flows and underlying proportional EBITDA margins well above 50%.

In recent years, increased focus on the decarbonisation of the global economy has prompted fears that structurally declining demand for fossil fuels could undermine the durability of Vopak's earnings. These fears weighed heavily on the company's market valuation in the period 2020 – 2022. While the trailing 12 months have seen Vopak's stock price recover much of the ground it lost during this period, relative valuation metrics remain compressed by historical standards, despite strong recent results and expectations of continued robust medium-term financial performance.

We believe the concerns over the durability of Vopak's business model are overstated, exhibiting a failure to recognise the subtle but significant shift in the company's portfolio in recent years, and the growing share of its earnings secured by long-term contracts.

**A subtle, but significant shift in Vopak's portfolio**

Continuous portfolio optimisation over the last decade has subtly repositioned Vopak's business. In 2014, oil and chemical storage terminals dominated the company's portfolio, accounting for ~90% of proportional capital employed. By contrast, Vopak's current portfolio exhibits greater balance. In the first half of fiscal 2024, the company reported that approximately 50% of its proportional capital

employed was allocated to oil and chemical terminals, with the remaining 50% of its capital employed in markets expected to be strategic growth drivers in a global economy that is seeking to balance ambitions for rapid decarbonisation with the imperative for maintaining energy security – gas and industrial terminals and storage for low- and zero-carbon fuels.

The transformation of Vopak's portfolio has followed from the implementation of a concordant and clearly articulated strategy, executed along three fronts:

- The company has divested a significant portion of its legacy oil and chemical storage capacity, often exhibiting deft market timing to secure highly accretive valuations at cyclical peaks.
- Management has repurposed traditional oil storage capacity, deploying modest amounts of new capital to convert existing maritime fuel infrastructure to support the storage of sustainable aviation fuel and renewable diesel in Los Angeles and to convert oil storage facilities in Deer Park, Houston, for vegetable oils. Both projects are underpinned by long-term commercial agreements and are expected to deliver attractive operating cash returns[1] above 15%.
- Management has deployed almost €900m of consolidated capital expenditure into growth opportunities in gas and industrial storage since November 2022, increasing proportional capital employed in these verticals by more than 50%. Projects are overwhelmingly supported by long-term commercial agreements, with most projects expected to deliver operating cash returns of over 15%.[1]

Buoyed by strong market demand, the transformation in Vopak's portfolio has supported strong expansion in returns on capital, with the company's results for the first half of fiscal 2024 demonstrating a proportional operating cash return1 of 16.7%, ~450 bps above the level achieved in 2021.

Further deployment of growth capital into gas and industrial terminals and storage capacity for sustainable fuels and feedstocks is expected to continue to optimise Vopak's positioning for the energy transition. Management has committed to deploy €1 billion of consolidated growth capital expenditure into 'new energies' opportunities by 2030 and is widely expected to upgrade its 2030 consolidated capital expenditure target for gas and industrial terminals, having already achieved ~90% of the aspiration announced at its 2022 Capital Markets Day. Collectively, these investments are expected to see the share of Group capital employed attributable to gas, industrial and new energies terminals grow from ~50% at the end of 2023 to 60-70% by 2030.

[1] Vopak defines operating cash return as proportional operating cash flow divided by average capital employed. Proportional operating cash flow is pre-tax and excludes growth capex, derivative movements and working capital movements. Management defines proportional capital employed as proportional total assets excluding assets and current liabilities that are not related to operational activities.

**A growing share of earnings secured by long-term contracts with inflationary escalation clauses**

Significantly, the evolution of Vopak's portfolio has also enhanced the resilience and predictability of its earnings and cash flows. Where oil and chemical storage contracts are typically struck with short tenors, ranging from a few months to five years, gas and industrial contracts exhibit much longer duration: typically at least 10 years for gas contracts and at least 20 years for industrial contracts. The shift in the composition of Vopak's portfolio has thus significantly lengthened the average duration of its contracts, with the proportion of contracts initially struck with a tenor of at least 10 years rising from ~23% in 2015 to ~34% at the end of 2022 and the average duration of the company's contracts now greater than 10 years. Notably, gas and industrial storage contracts typically include inflationary escalation clauses, an attribute rarely replicated in shorter-term oil contracts.

**Predictability amidst transition**

With a storied history spanning more than 400 years, Vopak has navigated countless transitions in the flows of global trade. With a portfolio that has undergone a subtle but significant transformation to optimise its positioning, and a growing share of earnings secured by long-term, inflation-linked contracts, we expect the durability of Vopak's earnings and cash flows to persist as the global economy transitions towards net zero.

*Sources: Company disclosures.*