Fund Update: 31 December 2018

MFG Select Infrastructure Fund - Class 1

Key Facts

Portfolio Manager	Gerald Stack
Fund Inception Date	30-December-2016
Total Select Infrastructure Assets[1]	USD $4,041.0 million
Fund Size	USD $41.5 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

USD Performance

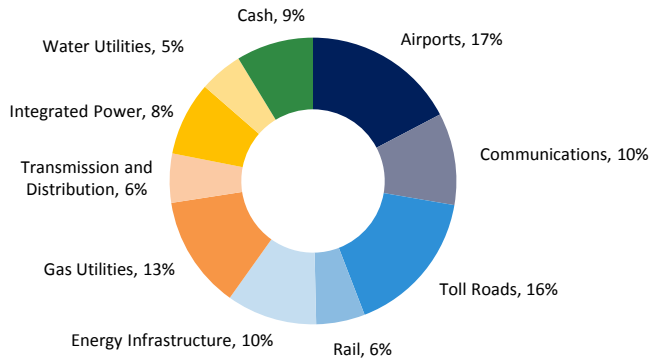
	Fund (before fees)	Fund (after fees)[2]	S&P Global Infrastructure NTR Index
1 Month (%)	-3.7	-3.8	-3.2
3 Months (%)	-3.4	-3.6	-5.3
6 Months (%)	-4.0	-4.3	-7.0
1 Year (%)	-4.8	-5.5	-10.4
2 Years (% p.a.)	8.7	7.9	3.3
Since Inception (% p.a.)	8.7	7.9	3.3

	Fund (before fees)	Fund (after fees)[2]	S&P Global Infrastructure NTR Index
2017 (%)*	24.2	23.2	19.1
2018 (%)	-4.8	-5.5	-10.4

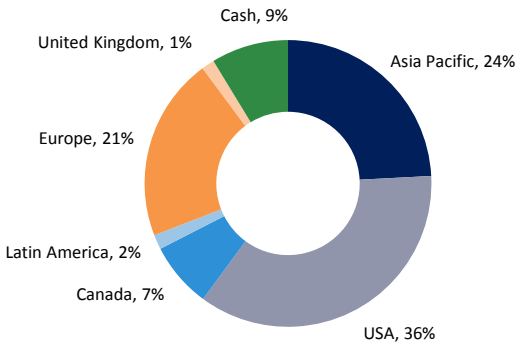
Top 10 Holdings

	Sector[4]	%
Transurban Group	Toll Roads	8.4
Atmos Energy Corp	Gas Utilities	6.1
Crown Castle International	Communications	6.0
Enbridge Inc	Energy Infrastructure	4.7
Sempra Energy	Gas Utilities	4.6
American Tower Corp	Communications	4.4
Atlas Arteria	Toll Roads	4.3
Eversource Energy	Integrated Power	4.1
Aena SME SA	Airports	4.0
Aeroports De Paris	Airports	3.9
	TOTAL:	50.5

Sector Exposure[4]



Geographical Exposure[4]



1 Comprised of all Select Infrastructure strategies.
2 Management Fee for the Fund is 0.80% per annum.
3 The inception date of the Fund (Class 1) is 30 December 2016.
4 Sectors are internally defined. Geographical exposures are by domicile of listing. Exposures may not sum to 100% due to rounding.
* Returns are only for part year

Fund Commentary

The portfolio recorded a negative return for the quarter. Stocks that detracted the most on a contributions basis included the investments in ADP of France, Atlas Arteria of Australia, Canadian Pacific Railway and Zurich Airport. ADP shed 14% after the French government said the law to sell its controlling interest in the Paris airport operator wouldn't be ready until the end of the northern winter and it was considering selling its ownership on a piecemeal basis rather than to a strategic buyer. Atlas Arteria lost 10% on talk the 'yellow vest' protests in France that were triggered by a rise in tax on petrol and diesel for environmental reasons would disrupt toll revenue from its French-based highways. Canadian Pacific lost 11% as North American railroad operators sagged on talk a slower US economy would reduce volumes transported by rail. Zurich Airport dropped 18% after revealing that steps announced by Switzerland's regulator would lower its aviation revenue by 150 million Swiss francs.

Stocks that added the most on a contributions basis included the investments in Transurban of Australia, American Tower and Eversource Energy of the US. Transurban added 6.4% in weak markets as management finalised the acquisition of the WestConnex toll road in Sydney. American Tower jumped 9.4% after the owner of wireless communications towers raised guidance for fiscal 2018 and reported higher-than-expected earnings and sales figures for the third quarter. Eversource rose 6.5% after the power utility announced operating revenue for the third quarter that beat estimates and management indicated that it would increase capital expenditure guidance for the full-year result.

Key Stock in Focus – Canadian Pacific Railway

Canadian Pacific Railway: Delivering consistent and attractive long-term returns thanks to a long-term efficiency drive.

In January 2017, Canadian Pacific's respected CEO Hunter Harrison unexpectedly resigned after more than four years in charge of Canada's second-biggest rail operator to join US-based peer CSX. Shares of CSX gained 15% on the news it had recruited the legendary instigator of super-efficient railroading.

Harrison's departure was significant because he symbolised the recent improvement in Canadian Pacific's business operations, even if that revamp had started nearly a decade before Harrison's arrival in 2012. Since the middle of the 2000s, Canadian Pacific has increased the efficiency and reliability of its services and cut costs. Importantly for investor returns, better operational performance allowed Canadian Pacific to lift its charges, resulting in higher margins, profitability and returns that led to a higher share price.

But Canadian Pacific shares rose 6% anyway over the month Harrison resigned and Keith Creel was installed as CEO. Investors could see the bigger trend. That North American railroad companies – and Canadian Pacific, in particular – had so revived themselves in recent time they were well positioned to benefit from an expected jump in freight volumes, which had languished over 2015 and 2016.

Cargo haulage was expected to increase over 2017 and 2018 for two reasons. The first was that demand was rising for commodities that are easily transported by rail; namely potash, grains and oil. The other was that a shortage of truck drivers in North America had boosted truck rates, which meant that rail operators could charge more to carry loads and still be the more economical and reliable option.

The rebound in haulage demand duly occurred, not just for Canadian Pacific but rival Canadian National Railway and other North American railway operators as well. An outlook for more growth and higher margins for North American railroad operators make the well-managed Canadian Pacific an attractive investment for those looking for infrastructure stocks that produce reliable and growing income streams. Canadian Pacific's share rose 24% over 2017 and 2018, a rise underpinned by investor confidence in the company's ability to maximise economies of scale and, ultimately, shareholder returns.

To be sure, even amid its rebound in recent years, Canadian Pacific has had plenty of challenges. The sluggish growth of 2015 to 2017 prompted the company to cut its workforce by 13% in October 2016. A cold snap early in 2018 dented operations and revenue for the first three months of the year. A future risk is that if the trade tensions were to intensify, tariffs on imports could slow haulage demand. More broadly, railways and railway transport are expensive to just maintain – Canadian Pacific spends about C$1.4 billion a year ensuring its network stays operable. Any accidents can be costly and higher fuel costs could always hurt margins.

But, on balance, owning rail infrastructure across Canada and the US has advantages when haulage demand is climbing. An efficient operator like Canadian Pacific, which is enjoying greater growth in loads carried than the industry average, is expected to offer long-term investors the predictable and growing returns they expect from such a core economic activity.

Building Canada

Not many companies can claim to have built a nation. Canadian Pacific can. In 1871, British Columbia said it would only join the then four-year-old federation of Canada if the government built a railway across the country. Officials agreed so in 1881 Canadian Pacific was formed. Within four years, the company had completed a railway across Canada, six years ahead of schedule. In the 1890s, Canadian Pacific ventured into the US Midwest. About a century later, Canadian Pacific bought a bankrupt US railway to expand into the US northeast, all the way to the ports there.

Until recent times, however, the company was mostly shunned by investors. Railroads in North America have had a long history of destroying value. Operations were relatively costly yet slow and unreliable. Most in the sector also heavily discounted their prices to compete for volumes. Subsequently, the entire sector – including Canadian Pacific – saw limited profitability and loss of market share to each other and to competing modes of transport such as trucking.

Not surprisingly, Canadian Pacific's rail service was sub-par at the time. Deliveries typically took too long and didn't necessarily arrive on time. And business was often lost to trucks or rival Canadian National Railway. Steps to improve Canadian Pacific's performance were begun earlier this century. But it wasn't until Harrison arrived earlier this decade and the subsequent implementation of 'precision scheduled railroading' as his drive for 'doing more with less' was called that investors saw a meaningful turnaround in the company's performance.

Management in the Harrison era reduced congestion on major routes through better traffic management, decreased the number of trains and invested in better infrastructure. This allowed, among other things, Canadian Pacific to run fewer but longer trains at faster average speeds, as well as remove unnecessary headcount. Essentially, the strategy was about optimising the company's assets. Moreover, the reduced congestion has allowed some shippers to move goods to delivery points that were once considered logistically unfeasible. Canadian Pacific still focuses on reducing transit times using better terminal and yard scheduling.

Nowadays, the efficient operator employs 8,000 people, runs 1,400 locomotives and owns or leases about 40,000 freight cars and 15,000 containers. The company boasts more than 100 loading facilities across North America and offers access to nine ports. Canadian Pacific offers the shortest route from Vancouver to the US Midwest and the quickest way to move goods from Toronto in the east of Canada to Calgary in the west where the company is based.

In fiscal 2017, Canadian Pacific's revenue of C$6.6 billion earned from 2.6 million carloads of freight was 5% higher than a year earlier (even if the outcome was still lower than the company's record sales haul of C$6.7 billion for fiscal 2015). Net income for fiscal 2017 doubled to C$2.41 billion from a year earlier. For added perspective, net income in fiscal 2017 was about five times higher than five years earlier when net income in fiscal 2012 was C$484 million.

As an added steadying force for returns, the company lugs goods from many industries – goods that are critical for the economy. Grain accounted for 24% of traffic in fiscal 2017. Energy, chemicals and plastics were 14% of haulage. Metals, minerals and consumer products were 12% of traffic. About 21% of cargo was classified as 'intermodal', which means it was in the form of containers that can be easily moved across trains, trucks and ships.

Canadian Pacific's focus on efficiency is evident by the improvement in key metrics such as average train speed, the average time trains spent at terminals, average train weight and average train length over the past five years. Average train speed, for instance, rose 23% from 2013 to 2017, while the number of hours that trains spent idle fell 7% over that time.

Over those five years, the key productivity measure (the adjusted operating ratio that compares costs to revenue) fell from 69.9% to 58.2%. Another feat is that in fiscal 2017 Canadian Pacific led the industry for safety for the 12th consecutive year.

Fiscal 2018 is proving just as promising. The result for the third quarter of 2018 showed revenue grew 19% from a year earlier to C$1.9 billion. Net income soared 22% to C$622 million.

The better times are expected to last a while yet thanks to the improvements achieved in the pre- and post-Harrison era.

Sources: Company filings and website.

IMPORTANT NOTICE

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 document provides a summary information regarding the Fund. Magellan Asset Management Limited trading as MFG Asset Management (**'MFG Asset Management'**) is the investment manager and promoter of the Fund. This material must not be copied, reproduced, published or distributed without the prior written consent of MFG Asset Management.

No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this document and is subject to change at any time and no person has any responsibility to update any of the information provided in this material. You should not construe the contents of this material as legal, tax, investment or other advice. If you are in any doubt as to whether or not an investment in the Fund is suitable for you, you should consult your bank manager, stockbroker, solicitor, accountant or other financial adviser. You (either alone or with the help of an appropriate financial or other advisor) should inform yourself as to the merits and risks of such an investment and have sufficient resources to be able to bear any losses that may result from such an investment.

Please see the Fund's Prospectus for a discussion of certain risks that should be considered by you. No distribution of this document will be made in any jurisdiction where such distribution is not authorised or is unlawful. There shall be no sale of shares in any jurisdiction in which an offer, subscription or sale would be unlawful, and in any event no securities shall be sold until authorisation has been obtained from the relevant regulatory authority. This document does not constitute, and may not be used for the purpose of, an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorised or in which the person making such offer or solicitation is not qualified to do so. It is the reader's responsibility to inform themselves about the above restrictions.

MFG Asset Management will not be responsible or liable for any losses, whether direct, indirect or consequential, including loss of profits, damages, costs, claims or expenses, relating to or arising from your use or reliance upon any part of the information contained in this document including trading losses, loss of opportunity or incidental or punitive damages.

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. 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.

The Global Infrastructure Benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure & Utilities Index Net Total Return and from 1 January 2015 the benchmark is S&P Global Infrastructure Net Total Return Index. The benchmark changed because UBS discontinued their index series.
The UBS Developed Infrastructure & Utilities Index Net Total Return is a market capitalisation weighted index that is designed to measure the equity performance of listed Infrastructure and Utility stocks. 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.
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.