Fund Update: 30 June 2020



MFG Select Infrastructure Fund - Class 2

Key Facts

Portfolio Manager	Gerald Stack
Fund Inception Date	6 May 2019
Total Select Infrastructure Assets[1]	GBP £4,304.1 million
Fund Size	GBP £183.5 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

GBP Performance

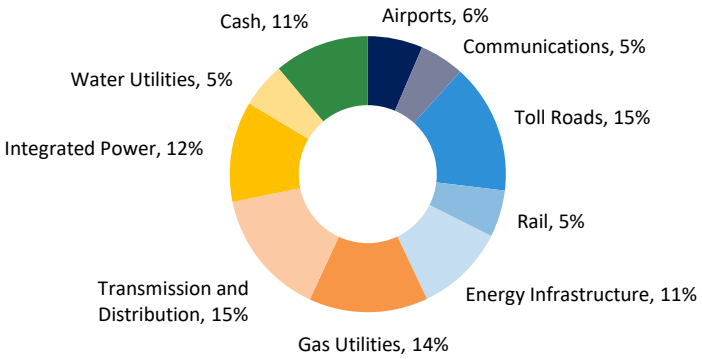
	Fund (before fees)	Fund (after fees)[2]	S&P Global Infrastructure NTR Index
1 Month (%)	-0.1	-0.2	-1.3
3 Months (%)	11.0	10.7	14.0
6 Months (%)	-6.4	-6.8	-13.9
1 Year (%)	-5.2	-5.9	-12.9
Since Inception (% p.a.)[3]	2.8	2.0	-5.6

	Fund (before fees)	Fund (after fees)[2]	S&P Global Infrastructure NTR Index
2019 (%)*	10.3	9.7	8.7
2020 CYTD (%)	-6.4	-6.8	-13.9

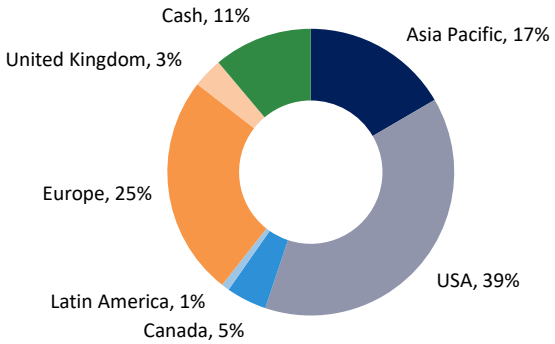
Top 10 Holdings

	Sector[4]	%
Transurban Group	Toll Roads	6.1
Atmos Energy Corp	Gas Utilities	5.8
Crown Castle International	Communications	5.2
Red Electrica Corporacion	Transmission and Distribution	5.0
Eversource Energy	Integrated Power	4.7
Enbridge Inc	Energy Infrastructure	4.6
Sempra Energy	Gas Utilities	4.5
Xcel Energy Inc	Integrated Power	4.4
Vopak NV	Energy Infrastructure	4.2
Snam SpA	Gas Utilities	3.7
	TOTAL:	48.2

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 2) is 6 May 2019.
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 positive return in the quarter. Stocks that contributed the most included the investments in Transurban and Atlas Arteria of Australia and Crown Castle International of the US. Transurban and Atlas Arteria gained on a view that less-harsh recessions than previously expected would curb the hits to traffic on their toll roads in Australia, Europe and North America. Crown Castle rose as lockdowns boosted traffic on its communications towers.

The only stock that fell to any extent was Sydney Airport, which declined after the Australian government said that the Australian border would likely stay closed until next year. Three other stocks, US electricity utility First Energy, railroader Canadian Pacific and United Utilities of the UK, showed slight declines in local-currency terms after investors favoured other opportunities as economies reopened.

Stock Story: Red Electrica

RED ELÉCTRICA DE ESPAÑA

Europe wants to become greener in energy terms. Spain is ambitious in this area too. In April, Madrid submitted its plan to the EU that declared the country is aiming for renewables to produce 74% of total electricity by 2030 and 42% of total energy demand. To show how ambitious Spain is, the plan entails installing more than two gigawatts of wind energy capacity and three gigawatts of solar capacity each year through the decade. This is a huge investment in clean energy.

This is a big opportunity for Red Electrica, which operates Spain's electricity power transmission grid. The Madrid-based utility, which earned two billion euros in revenue in 2019, performs a critical role in the functioning of the electricity market. Its responsibilities include not only building and maintaining the high-voltage transmission grid but also the day-to-day operations of the market and the long-range planning for the system through its role as the transmission system operator.

To keep up with the rapid growth in maintenance, intra-European connectivity and renewable energy, the company plans to spend about 2.9 billion euros over 2018 to 2022, a 39% increase in the annual rate of spending compared with the prior business plan. While the company is still working through its latest long-term plan, it is likely Red Electrica's investment spending will remain at these elevated levels.

In many businesses, capital expenditure would be considered a cost to investors. However, in a well-functioning regulated utility market, the company is entitled to receive compensation for the fair costs of running the business. This cost is paid primarily by customers and businesses through a component of the electricity access tariffs. As such, the capital spending falls within the 'fair costs' on which the company earns a regulated return, the source of 91% of Red Electrica's gross profits in 2019. It is already decided that Red Electrica will be allowed to earn a base return of 5.58% on its regulated asset base from 2021 to 2025, with an opportunity for higher returns if the company can find efficiencies in its operations.

Another favourable dynamic is the recent improvement in the regulatory oversight for the company. In 2019, the Spanish government granted increased independence to the National Commission of Markets and Competition, the regulatory body tasked with, among other things, setting the fair level of revenues that Red Electrica can charge. This came about due to a mandate from the European Commission. From an investment perspective, independent economic regulation is critical to investors receiving predictable, transparent and fair outcomes. This is especially true in areas as politically sensitive as energy prices.

In addition to its Spanish grid, Red Electrica has been gradually developing and acquiring a collection of electricity transmission assets in South America, including assets in Chile, Peru and, more recently, Brazil. These assets typically generate capacity-payment (that is, predominantly fixed) income streams.

Overall, the better regulation and capital expenditure opportunity in Spain position Red Electrica to deliver what investors expect from a utility and infrastructure stock; namely, one that will deliver reliable income streams with some capital growth.

However, like any investment, Red Electrica comes with risks. The company, for instance, has in recent years acquired a stake in a satellite provider Hispasat that is too far outside of the core business to be judged an attractive acquisition. However, this investment is a minority in the business mix and doesn't undermine the overall investment case.

Further, like many utilities, Red Electrica employs significant debt to fund its significant capital needs. However, the rating agencies are sanguine about Red Electrica's financial profile. (Moody's has an investment-grade Baa1 rating on the company; Standard & Poor's and Fitch rate it A-).

Finally, as for every business now, covid-19 poses operational and financial challenges. In Spain, electricity demand has fallen significantly during the lockdown and is still gradually recovering to prior levels. However, from an investment perspective, Red Electrica's exposure to this is minimal and its revenues are largely fixed, with any shortfall legally required to be compensated in future years.

Sources include company filings and website and Bloomberg.

IMPORTANT NOTICE

MFG Select Infrastructure Fund - Class 2 (**'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. 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. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners.

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. Further information regarding any benchmark referred to herein can be found at www.mfgam.com.au.