

Investment objective

Aims to outperform the S&P Global Infrastructure Index (Net Total Return \$A Hedged) over the medium to long term (before fees). It aims to provide a return comprising both income and capital growth.

Key information

Fund details

APIR code	MAQ0423AU
Inception date	29 September 2005
Fund size	\$244.3m
Distribution frequency	Quarterly
Management fee*	1.00% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	macquarie.com.au/unit_prices

*Read the Product Disclosure Statement for more details on fees and costs.

Top 10 stocks

	%
Sempra Energy	6.2
Cheniere Energy Inc	6.1
American Electric Power	5.3
TC Energy Corp	4.9
Aena SME SA	4.0
Sydney Airport	4.0
Nextera Energy Inc	3.8
Enbridge Inc	3.7
Atlantia Spa	3.7
Transurban Group	3.7

Fund performance to 31 October 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.46	-0.54	-0.75	0.21
3 months (%)	-2.23	-2.48	-2.05	-0.43
1 year (%)	-11.55	-12.45	-19.49	7.04
3 years (% pa)	1.02	0.01	-2.98	2.99
5 years (% pa)	5.11	4.07	2.50	1.57
Since inception (% pa)	7.65	6.52	6.39	0.13

Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Top sectors

	%
Pipelines	26.2
Airports	17.1
Electric Utility	16.8
Electricity And Gas Distribution	13.4
Toll Roads	12.2

Top countries

	%
United States	37.3
Canada	12.0
Italy	9.3
United Kingdom	8.7
Australia	8.1

Macquarie International Infrastructure Securities Fund (Hedged)

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Fund highlights

The Fund returned -0.54% (after fees), outperforming the benchmark which returned -0.75%. As the Fund's foreign currency exposure is hedged, Australian dollar movements do not materially affect its return.

The major contributors to the strategy's return were the Electric Utility and Electricity And Gas Distribution sectors. The major detractors from the strategy's return were the Airports and Pipelines sectors. Relative to the S&P Global Infrastructure Index and in local currency terms, major stock contributors to the Fund's return included American Electric Power Co Inc, Sempra Energy, and Enel SpA. East Japan Railway Co, Exelon Corp, and Orsted A/S were among the significant detractors. Relative to the S&P Global Infrastructure Index, the major positive contributors were positions in the Electricity And Gas Distribution and Electric Utility sectors. Positions in the Rail / Other Transportation and Airports sectors detracted.

Market review

Equity markets declined in October on the back of rising COVID cases and uncertainty heading into the US Presidential election. Surging coronavirus numbers in Europe and the US dominated headlines as record new COVID infections prompted tighter lockdown restrictions in Europe. In the US, after weeks of negotiations on potential new stimulus measures to counter the persistent negative effects of the health crisis, Democrats and Republicans could not agree, delaying potential economic aid until after the elections.

The worsening numbers notwithstanding, the US economy rebounded sharply in the third quarter after its sharp decline in the second quarter. While growth is on a positive trajectory, the path to sustainable recovery on the employment front may take much longer. Markets digested another round of earnings, with many companies beating profit estimates despite revenues coming in well below levels seen at this time last year. Worries about future profit growth and potentially stretched valuations in the US technology sector also hurt markets as any weakness in sentiment around mega-cap technology companies may have negative implications for the broader market.

Transportation infrastructure continues to be the most impacted by COVID, especially the global airport sector as demand continues to deteriorate. September traffic results were generally weak, with year-over-year declines in passenger numbers and load factors declining month-over-month, suggesting that current demand continues to be soft. While road traffic has proven to be relatively more resilient through 2020, recent measures across the Eurozone to impose lockdowns and curfews may deter travel by vehicle in the near term as well.

Oil prices fell as surging coronavirus infections have investors worried that the unsteady economic recovery will deteriorate. Challenges in the energy sector continue to weigh down the space as strained prices and weakened demand have accompanied months of reduced travelling for professional and personal reasons. After a sharp boost to imports earlier this year, China's crude purchases have recently declined and are no longer as supportive as during the summer. The near-term outlook remains weak as a resurgence of COVID cases threatens the recovery and supply is abundant.

As volatility swept equity markets, utilities emerged as a leader during the month as their stable underlying business models helped to make them more resistant to the market downturn. As the utilities sector comprises companies that produce and deliver electricity, gas, or water to their customers, their products and services are essential items that people need during all phases of the economic cycles, regardless of financial conditions. The stable demand can help these sectors generate steady revenues under various economic environments.

Key Contributors to Outperformance

1. American Electric Power ("AEP"), a US electric utility, was up 10% for the period. During the month, the company reported Q3 earnings of \$749m compared with \$734m in Q3 2019. The beat was driven by a focus on managing operations and maintenance expenses and enhancing efficiency despite milder temperatures year-over-year. Residential sales increased 2.6% compared with last year, largely due to people spending more time at home in response to the pandemic. In addition, with Joe Biden leading Donald Trump in the US presidential election polls, investors viewed AEP positively should Biden win the election. Biden has a \$1.7 trillion plan to address climate change that would extend tax credits to incentivise companies to create more wind and solar energy production plants. The company has made investments to reduce its reliance on coal including investing more than \$2 billion in renewable energy by 2024, reducing carbon dioxide emissions by 70% by 2030, building more wind and solar capabilities by 2030 and creating a more modern power grid.
2. Sempra Energy, a US electricity and gas distribution company, was up 6% for the month. During the month, the US Energy Information Administration (EIA) forecasted that residential natural gas consumption for the 2020–21 winter would be up 5% more than last winter due to forecasts for colder temperatures this winter and changes in consumer behavior in reaction to the COVID-19 pandemic will also contribute to more residential consumption of natural gas this winter. In addition, the company's subsidiary, IEnova, a Mexican pipeline operator, reporting Q3 earnings with quarterly profit that is 32% higher compared with 3Q19 and comes also on the back of its natural gas-powered plant in Mexicali, Baja California. IEnova remains confident it will secure a first-of-its-kind export permit to move forward with its US\$1.9bn Energía Costa Azul liquefaction project, which would buy natural gas from the US to export liquified natural gas to Asia and Europe.

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3. Enel SpA, an Italian electric utility, was down 8% for the period but was a positive contributor as the portfolio did not hold the position and it underperformed for the month. The company was down with the broader Italian equity market as rising COVID cases across Europe have resulted in government-imposed lockdowns in an effort to contain the virus. During the month, Enel committed to an 80% reduction in its direct greenhouse gas emissions per kWh by 2030, from a 2017 base-year, becoming the first major, global, integrated utility to set an emission reduction target consistent with the United Nations pledges to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero emissions by 2050.

Key Contributors to Underperformance

1. East Japan Railway was down 16% for the month. The company was down with the broader transport sector on the back of rising COVID cases globally, prompting governments to impose lockdowns and curfews to help curtail the spread of the virus. As such, rail passenger volume declined with expectations for further weakness in the coming months should the virus infection rates maintain their current levels. In addition, East JR reported 1H21 results that were in-line with expectations with EBIT coming in at -JPY 295bn, supported by better than expected cost cutting and in-line transport revenue. These positives however, were offset by retail and real estate revenues coming in below expectations.
2. Oneok, a North American pipeline operator, was up 14% but was a detractor from relative performance as the portfolio did not hold it and it outperformed the broader infrastructure sector during the month. The company reported Q3 earnings with EBITDA coming in at \$747 million versus consensus at \$672 million. Drivers of the beat were due to better costs on the NGL side and much stronger than expected G&P results primarily due to better fees mix. The better than expected results and momentum into 4Q resulted in management revising its guidance from the low end of \$2.6-3.0 billion of EBITDA to approaching the mid-point.
3. ENAV, an Italian air-traffic controller, was down 8% for the month. The company's Q2 earnings results were better than expected, thanks to a revenue beat driven by balance as traffic remains weak. Further, cost control was better than expected, which also helped EBITDA and H1 2020 cash generation. FY guidance withdrawal not a surprise given the building blocks to the prior FY2020 guidance (mid-single digit revenue decline thanks to balance revenue and a high single digit decline in net income) are no longer relevant in the current economic environment. That being said, the EU aviation sector in general has experienced deteriorating operating momentum, as volumes decline sequentially due to increasing Covid-19 cases, travel restrictions in Europe, and a general lack of demand to fly, which has been a drag on sentiment for ENAV.

Outlook

The growth outlook is unclear as volatile macroeconomic factors paired with the ongoing global pandemic have escalated economic and market uncertainties. As governments and business leaders around the world look to reignite economic growth in the wake of the coronavirus pandemic, concerns remain about how we can bring people back safely and responsibly to offices, schools, and shops. The Federal Reserve and other central banks globally have kept policy extraordinarily loose, offering its lending and market-boosting programs, and reassuring investors that interest rates should remain lower for longer. The motivation globally is to keep financial conditions as supportive as possible.

As we move towards winter in the northern hemisphere, the outlook for the transportation continues to be weak in the near term. That said, this past spring and summer demonstrated that commuter passenger flows on road and rail, and short haul air travel, were quick to rebound when lockdown conditions eased. This was reflective of a strong underlying demand and bodes well for the future recovery post-COVID. As such, we believe the weakness in the space offers selectively attractive entry points as investors begin to think more about the "look-through trade" when growth will return to the sector.

Within energy infrastructure, as many companies emphasize more sustainable dividends, capital discipline, balance sheet improvements, and free cash flow generation, the business models have been tilting towards a greater total-return focus, resulting in a concerted effort to invest in sustainable long-term growth projects. One such segment of the energy sector is the liquified natural gas ("LNG") exporters. The medium and long-term thesis for LNG should remain intact given the expectations for growth in Asia as sentiment grows for a transition to cleaner forms of energy. We remain defensively positioned within the sector, with a focus on stable and predictable cashflows and limited commodity exposure.

A thoughtful active management approach is needed given increased political, economic and market uncertainty. We believe vigilant and continuous assessment of the current market environment offers opportunities to take advantage of market dislocations and achieve attractive risk-adjusted returns through an active focus on portfolio risk and diversification.

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For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarie.com

Important information

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