Macquarie Investment Management

Macquarie International Infrastructure Securities Fund (Hedged)

Monthly report – 31 December 2020

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	$256.6m
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.

Fund performance to 31 December 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.51	0.43	1.44	-1.01
3 months (%)	9.45	9.18	11.28	-2.10
1 year (%)	-5.97	-6.91	-11.93	5.02
3 years (% pa)	4.44	3.40	0.97	2.43
5 years (% pa)	8.16	7.09	6.08	1.01
Since inception (% pa)	9.98	8.88	7.67	1.21

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	24.5
Electric Utility	19.2
Airports	16.3
Toll Roads	13.9
Electricity And Gas Distribution	11.2

Top 10 stocks

	%
Cheniere Energy Inc	6.1
Sempra Energy	6.0
Transurban Group	4.8
American Electric Power	4.7
Aena Sme Sa	4.6
TC Energy Corp	4.5
Sydney Airport	4.3
Atlantia Spa	3.9
Enbridge Inc	3.8
Enav Spa	3.6

Top countries

	%
United States	35.1
Canada	11.8
Italy	10.2
Australia	9.6
United Kingdom	8.6

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Fund highlights

The Fund returned 0.43% (after fees), underperforming the benchmark which returned 1.44%. 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 Rail and Other Transportation, and Electric Utility sectors. The major detractors from the strategy's return were the Pipelines, and Electricity and Gas Distribution sectors. Relative to the S&P Global Infrastructure Index and in local currency terms, major stock contributors to the Fund's return included Aleatica Sab, Cheniere Energy Inc, and West Japan Railway Co. Signature Aviation Plc, Vinci SA, and TC Energy Corp were among the significant detractors. Relative to the S&P Global Infrastructure Index, the major positive contributors were positions in the Rail and Other Transportation, and Toll Roads sectors. Positions in the Airports, and Electricity and Gas Distribution sectors detracted.

Market review

Financial markets ended a tumultuous 2020 with the expectation that the new year will be a pathway to returning to normality. The markets rallied in December on the prospects and ultimate agreement of another tranche of Coronavirus stimulus. Covid-19 vaccine emergency use approvals from the FDA aided market sentiment even as daily infection rates, hospitalizations, and deaths hit highs. Economic data continued to be mixed but showed continued progress on the employment front. December also ushered in another round of equity IPOs that were well received by Wall Street. The UK and EU also finally announced that they had come to a post-Brexit trade agreement, which prompted European stocks higher.

The vaccine announcements raised hopes for higher economic growth as well as a return for travel and leisure, lifting cyclical areas of the market and the more economically sensitive user demand infrastructure assets. Utilities with exposure to the renewable sector continued their strong performance, while the energy sector saw a meaningful rebound.

Key Contributors to Outperformance

1. Aleatica SAB de CV, a Mexican toll road operator, was up 21% for the period on no company specific news. The stock continued its rebound from its March pandemic lows (from which it has not rebounded approximately 50%). Investors recognized the attractive value of the company's toll road concessions and "looked through" the current economic weakness towards stronger activity on the back of the global rollout of coronavirus vaccines.
2. Cheniere Energy, a North American liquified natural gas ("LNG") terminal owner and operator, was up 6% for the month of December. The stock was supported by rising global LNG prices, a factor that is expected to increase US exports over the current winter season (October 2020 to March 2021) materially compared to last year. The increase in expected volume of exports is being driven in part by Japan and South Korea. Further, the LNG market is starting to re-balance due to a slowdown in new LNG liquefaction capacity additions combined with ongoing demand growth. We expect this trend to continue. We maintain a favorable view of Cheniere as it remains a dominant LNG player in the US and is competitively well-positioned relative to peers given its existing platform with long dated contracted cash flows. Approximately 90% of the company's liquefaction capacity is sold under long-term contracts, supporting cash flows regardless of LNG price fluctuations. With the global LNG market recovering, we see attractive leverage to improving prices for the company's non-contracted exposure, coupled with downside protection provided by the existing contracts.
3. West Japan Railway, a Japanese railway stock was up 13% during December. The stock rebounded after its sharp losses driven by passenger volume declines caused by the pandemic. JR West is a notable laggard relative to other global transport infrastructure names and offers attractive valuations at current levels. We have retained our position in this name as we expect the market to "look through" the current weakness towards a recovery engendered by the global vaccine rollout.

Key Contributors to Underperformance

1. Vinci stock pulled back after a very strong rebound in prior months driven by investors' expectations of increased mobility engendered by the global vaccine rollout
2. TC Energy lagged as its highly contracted cash flows provided less exposure to rebounding commodity prices and investors were attractive to other, higher beta names during the month.
3. NiSource lagged around an ongoing debate regarding the future of natural gas usage in the US. We believe the stock offers an attractive value and that the market has overly discounted the slow pressure that climate change initiatives will bring. We maintained our position in the name.

Outlook

We now have a clearer picture of how the next year may progress. It will likely be dominated by the progress of the vaccine rollout, as well as results achieved compared to, albeit high, expectations. There are concerns regarding distribution logistics, social acceptance, safety, and efficacy, all factors that will need to be managed by authorities. As the global economic recovery grapples with the effects of the pandemic, national policies will be crucial for effective navigation of this environment. While full economic recovery may take some time, the long-term outlook for listed infrastructure companies still appears favourable in most regions. We look to 2021 with optimism and are excited by a few key long term secular drivers within the portfolio, such as: utilities that are well positioned for earnings growth driven by investment in lower cost renewables; the potential for new solutions involving hydrogen as an alternative to fossil fuel; and the anticipated infrastructure spending planned as stimulus by governments around the world as they try to combat the recession caused by Covid-19.

In the more immediate future, after a very disrupted year in 2020 due to Covid-19 restricting travel, we see the potential for a recovery in the fundamentals of transportation infrastructure in 2021 and beyond. The coordinated global effort to develop vaccines has seen inoculation begin with the Pfizer and Moderna vaccines and others in various stages of development. By the end of 2021, a significant portion of the developed world may be vaccinated. Over 2020, the resilience of toll road and airport business models have been tested to extremes. The recovery of toll road traffic has largely followed lockdown restrictions, and so would expect a recovery to “normal” (using 2019 levels as a baseline) over the course of the year if the vaccines prove effective. Similarly, air travel will return to prior levels once travellers feel safe and this will likely be once vaccination programs are complete and effective, with short-haul travel rebounding first and then followed by long-haul and transfer traffic. The portfolio is positioned well to take advantage of this recovery and our patience and investment discipline through 2020 is being rewarded.

That being said , the recovery is not being consistently priced across the global listed infrastructure universe we continue to observe mispricing of infrastructure companies. For example, listed rail companies in Japan are pricing an extremely slow and elongated recovery in passenger numbers, with share prices reflecting the market and sell-side’s weak expectations. Little credit is being applied for effective vaccines or a recovery in international travel that would bring increased tourism patronage to rail networks, unlike many other infrastructure asset prices that are looking through near term weakness towards a brighter future. The portfolio seeks to capitalise on such mispricing’s across the broader listed infrastructure universe and we expect further benefits to accrue in 2021.

We continue to believe that a thoughtful active management approach is required in the current environment. We believe that a vigilant and continuous assessment of the opportunity set across our global research platform offers opportunities to take advantage of market dislocations and achieve attractive risk-adjusted returns for our clients.

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