

Ausbil Global Essential Infrastructure Fund – Unhedged

Monthly performance update

July 2022

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'Essential Infrastructure has enjoyed a period of strong performance, both in absolute and relative terms to most other asset classes'

Performance Review

Fund performance for the month ending July 2022 was +5.32% (net of fees) versus the benchmark return of +1.03%, as measured by the OECD G7 CPI Index plus 5.5%.

After the savage drawdown in global equity markets in June, equity markets staged a strong recovery in July. Bond yields declined rapidly following their meteoric rise in the preceding period as bond markets seemingly started pricing in an increased chance of a recession with the yield curve inversion steepening across most markets.

Essential Infrastructure also performed strongly during July. The moves in bond yields in July together with continued high inflation prints in developed markets, provided a solid back drop for the asset class. Over the course of 2022, Essential Infrastructure has displayed its defensive characteristics and low downside capture but, in case of July, its ability to also capture upside when equity markets rise.

During the month, mobile tower company Cellnex Telecom rose 18% after the company revealed it had withdrawn from the bidding to acquire Deutsche Telecom's tower assets in Germany and Austria. Given the structure of the proposed transaction, we viewed Cellnex's withdrawal positively demonstrating its disciplined approach to M&A – and the equity market appeared to take a similar view!

Getlink, the owner of the concession to the Channel Tunnel between the UK and France, rose 16% as it delivered financial results notably above expectations. This was the company's maiden result incorporating ElecLink, a new transmission electricity cable running inside the tunnel that is greatly benefiting from the energy market turmoil in Europe.

Elsewhere, renewable energy companies NextEra and Acciona Energia continued their strong run, as did companies involved in US LNG export operations and project development like Cheniere and Sempra. NextEra, the largest portfolio holding, benefited from positive political developments in the US for potentially extending and widening Federal tax support for renewable energy. If legislative success is ultimately achieved, NextEra will be a significant beneficiary.

Outlook

Some of the moves in financial markets are unprecedented in their size and volatility. This volatility is likely to remain until we see evidence of inflation peaking, and therefore have a clearer picture of the likely shape of the economic cycle over the medium term.

Essential Infrastructure has enjoyed a period of strong performance, both in absolute and relative terms to most other asset classes. Investors have, correctly in our view, gravitated towards its defensive, secular growth and inflation protection properties despite the rising interest rate environment. As a result, at an asset class level, we have witnessed some compression of returns.

That being said, when calibrated to the macro backdrop together with the numerous secular growth drivers at play, Essential Infrastructure remains well placed to meet our G7 CPI + 5.5% return objective through the business cycle. Furthermore, at a stock and sector level, we are continuing to see attractive investment opportunities where there is dislocation, providing opportunities to deploy capital at the margin.

Performance

Returns as at 31 July 2022

Period	Fund Return % Net	Benchmark ¹ %	Out/Under Performance % Net
1 month	5.32	1.03	4.29
3 months	3.55	3.18	0.37
6 months	8.22	6.10	2.12
FYTD	5.32	1.03	4.29
CYTD	5.10	7.08	-1.98
1 year	11.61	11.53	0.07
2 years pa	11.85	9.28	2.57
3 years pa	6.67	8.47	-1.80
Since inception pa Date: December 2018	11.50	8.23	3.27

Top 10 Stock Holdings

Name	Fund %
NextEra Energy	6.55
Cellnex Telecom	5.37
Cheniere Energy	5.10
Transurban Group	4.50
Ameren Corporation	4.42
Vinci	4.25
Aeroports De Paris	4.06
Getlink	4.05
Sempra Energy	4.05
Ferrovial SA	3.87

Sector Allocation

Sector	Fund %
Communications Infrastructure	17.60
Energy Infrastructure	7.71
Transportation	29.71
Utilities	43.99
Cash	1.00
Total	100.00

Region Allocation

Country	Fund %
Asia Pacific	9.98
Europe	41.45
North America	39.00
United Kingdom	8.57
Cash	1.00
Total	100.00

1. The benchmark is the OECD G7 CPI Index plus 5.5% per annum, which is an accumulation index maintained by Ausbil. The OECD G7 CPI Index is published on a monthly basis, generally five weeks after the end of the period. Therefore, the benchmark return shown is an estimate based on the OECD G7 CPI Index for the previous published month.

Infra-know

Mobile phone towers are in focus given the significant number of transactions that have occurred over the last few years, including in Australia. More recently we have seen many acquirers involve private equity and unlisted funds with less involvement from the large listed players in the US and Europe. The divestment of these assets has been mostly undertaken by the telecom service providers, driven by escalating capex requirements to secure spectrum rights and support the roll out of their 5G networks, together with the lower cost of capital of alternative owners of the mobile phone tower assets. Transaction multiples have re-rated much higher, triggering a widening of valuations between the listed and the unlisted market. In some instances, we are seeing multiples for listed mobile tower companies at some 50% to the valuations paid in these transactions. This is not an uncommon theme in listed infrastructure, and especially Essential Infrastructure. In the listed market, investors can usually gain exposure to these infrastructure assets at a lower valuation, and in an ownership structure with strong ESG credentials. While valuation disconnects can exist between listed companies and unlisted transaction multiples, dispersions of this magnitude are less common and generally do not persist for an extended period of time. This very dispersion brings with it compelling opportunity to add value through an active listed infrastructure strategy.

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