

Ausbil Global Essential Infrastructure Fund – Unhedged

Quarterly performance update

December 2022

Ausbil Investment Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

'Inflation protection is one of the hallmarks of infrastructure and we estimate that 95% of our portfolio has an effective means through which to pass through inflation'

Performance Review

Fund performance for the quarter ending December 2022 was +4.88% (net of fees) versus the benchmark return of +3.22%, as measured by the OECD G7 CPI Index plus 5.5% pa.

After the rebound in October and November, markets initially continued to rise in December, before selling off in the second half of the month. The main driver for the sell-off was a combination of hawkish updates from both the US Federal Reserve and the ECB. These extinguished hopes of early interest rate cuts in 2023 and the market sold off as a result. The Fed now expects to keep interest rates higher in 2023, with no cuts expected until 2024.

Given the broad sell-off in equities during December, infrastructure was not immune. All major sectors and regions of Essential Infrastructure fell during the month. Energy Infrastructure led the decline, falling close to 6% on average, followed by Transportation Infrastructure at just under 5%. Both of these sectors fell due to increased concerns over a recession in 2023. Utilities (-2.2%) and the UK in particular (-1.8%) were areas of relative strength.

Looking at individual names, recent addition to the Fund, Exelon, a US electricity and gas utility was the biggest gainer adding 4.5%, and rebounding well from recent lows that provided an excellent entry point. Elsewhere, Ørsted, the global leader in offshore wind rose 1.7%. We continue to view renewable energy as an attractive secular growth trend, driven by the Inflation Reduction Act (IRA) in the US and also the repowering of Europe away from Russian gas towards renewables. We also note the potential passage of a Canadian carbon copy of the US IRA in the first half of 2023, which would underpin increased development of renewable energy in that country.

The biggest faller in the Fund was French airport group ADP, which fell 14.7%, closely followed by LNG terminal company Cheniere at 14.5%. Both of these companies fell on bearish economic sentiment for 2023. We continue to see good opportunities in both of these stocks. Cheniere is benefitting from multi-decade contracts that secure cashflow for many years to come, whilst ADP is seeing a strong traffic recovery, which is nearly back to pre-Covid levels.

Portfolio Strategy

The market is now expecting inflation to remain sticky and as a result interest rates to remain high through to 2024. The high level of interest rates in a slowing economy has now led to a market consensus that recessions in both the US and Europe are inevitable.

In this environment, we think Essential Infrastructure is, once again, relatively well positioned. Inflation protection is one of the hallmarks of infrastructure and we estimate that 95% of our portfolio has an effective means through which to pass through inflation.

In addition, despite a potential recession, the secular growth thematics of infrastructure remain strong. These thematics include the continued build-out of renewable energy, the upgrading of mobile phone networks to 5G, and the recovery of air travel back to pre-COVID levels, to mention a few. If global economies are heading into a recession, then growth expectations will reduce across the market and the growth rates of these secular trends will look increasingly attractive to investors.

Performance

Returns as at 31 December 2022

Period	Fund Return % Net	Benchmark ¹ %	Out/Under Performance % Net
1 month	-3.98	1.03	-5.01
3 months	4.88	3.22	1.66
6 months	0.58	6.59	-6.01
1 year	0.36	12.96	-12.60
2 years pa	10.04	10.84	-0.80
3 years pa	2.77	9.37	-6.60
4 years pa	9.29	8.79	0.50
Since inception pa Date: December 2018	8.99	8.78	0.22

Top 10 Stock Holdings

Name	Fund %
NextEra Energy	6.59
Cellnex Telecom	5.36
American Tower	5.05
Vinci	4.69
Ferrovial	4.61
Transurban Group	4.58
Sempra Energy	4.50
Ørsted	4.48
Cheniere Energy	4.46
Ameren	4.36

Sector Allocation

Sector	Fund %
Communications Infrastructure	15.99
Energy Infrastructure	7.68
Transportation	30.23
Utilities	45.61
Cash	0.49
Total	100.00

Region Allocation

Country	Fund %
Asia Pacific	10.66
Europe	37.49
North America	44.75
United Kingdom	6.61
Cash	0.49
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

Whilst interest rates remaining high is a concern, we have spent a lot of time looking at the debt profiles of our companies to ensure that we are comfortable with upcoming refinancing of maturing debt, and also the fixed/floating rate composition of the debt books.

Whatever your view of 2023, we believe that Essential Infrastructure contains a lot of the desirable characteristics that investors are looking for. Our modelling is showing that infrastructure continues to offer good long-term opportunities, and as a result we remain fully invested.

As always, the team will continue to apply the process we have developed in a consistent manner as we seek attractive investment opportunities in high-quality names that also have sound ESG credentials.

Infra-know

The momentum of listed infrastructure as an asset class is increasing. The Global Listed Infrastructure Organisation (GLIO), forecasts that total Assets Under Management of its members will grow from US\$145 billion today to over US\$350 billion by 2030, following a similar trajectory to the early years of REITs. What's driving this? An increasing awareness and understanding of the attractive characteristics of infrastructure by investors around the world is undoubtedly one of the biggest drivers, as is an increasing demand for liquidity by some of the larger institutional investors. Whatever the reasons, this strong tailwind for the asset class is certainly a positive – as we say on the team, it's always better to invest with the wind at your back, than a headwind in your face. All the very best for 2023!

Ausbil Investment
Management Limited
Level 27
225 George Street
Sydney NSW 2000
Australia
Toll Free 1800 287 245

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