

Ausbil Global Essential Infrastructure Fund – Unhedged

Monthly performance update

January 2023

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'The backdrop of peaking interest rates is supportive of infrastructure assets, and particularly longer duration assets that suffered in 2022'

Performance Review

Fund performance for January 2023 was +1.27% (net of fees) versus the benchmark return of +1.05%, as measured by the OECD G7 CPI Index plus 5.5% pa.

After the sell-off in December, markets rebounded in January with the MSCI World Index up 7.1%. Optimism over falling inflation and sharply lower commodity prices helped fuel the rebound. After a milder winter, natural gas prices in Europe have halved in the past three months, a similar amount to electricity prices. This has improved the economic outlook for Europe and reduced the risk of recession, thus driving European markets, in particular, higher.

Infrastructure participated in the rally, but to a lesser extent given the relative outperformance seen in 2022 and also lower sensitivity to the overall economic cycle.

All sectors of infrastructure were in positive territory in January, with Transportation the standout, rising 11.2%. Toll roads and airports benefitted from the improved outlook and airports in particular were helped by the re-opening of China and the expected return of Chinese tourists throughout 2023.

Mobile Phone Towers also performed strongly in the month, rising 7.7%. This sector suffered the most in 2022, and is the most sensitive to interest rate movements. The peaking of interest rates over the coming months should be beneficial to this sector in particular.

Utilities lagged in the month, although still delivering a positive return of 1.1% as a group. This reflects their low sensitivity to the cycle and also their strong relative performance in 2022.

Looking at individual names, Spanish airport group AENA was the strongest performer, rising 17.2%. Other European transport names performed strongly too, with ADP +13.6%, Vinci +11.1% and Ferrovial +10.5%. Spanish Mobile Phone Tower name Cellnex rose 16.0% partly on the back of rumoured M&A activity.

On the negative side, US utility and renewable energy company NextEra fell 10.7%. The company delivered a strong set of results, but the unexpected departure of the CEO of the Florida utility subsidiary spooked the market. We think the fall looks overdone.

Portfolio Strategy

Whilst the economic outlook remains uncertain and likely to be a rocky road going forward, there was increased optimism throughout January, particularly in Europe, where recession is no longer seen as inevitable. This situation should continue to benefit our European holdings, and our Transportation names in particular, as will a post-COVID reopening in China.

Although interest rates are likely to increase in the near term, a slowing in the pace of increases should be well received. In addition, this should bring the peak of interest rates into sight and the market can then adjust to what peak interest rates look like, and their impact on economies. Interest rates are likely to remain at elevated levels for an extended length of time, and we are not expecting any interest rate cuts by the Federal Reserve in 2023.

This backdrop of peaking interest rates is supportive of infrastructure assets, and particularly longer duration assets that suffered in 2022. Our analysis shows that infrastructure has in the past outperformed broader equities once interest rates have peaked. One of the reasons for this is the secular growth that is implicit within infrastructure assets. Whilst rising rates can crimp growth prospects for other sectors, the growth outlook for infrastructure remains largely unchanged. Therefore, on a 'relative growth' perspective, infrastructure should continue to look attractive when compared to other sectors.

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.

Performance

Returns as at 31 January 2023

Period	Fund Return % Net	Benchmark ¹ %	Out/Under Performance % Net
1 month	1.27	1.05	0.22
3 months	0.62	3.18	-2.56
6 months	-3.29	6.60	-9.89
1 year	4.66	13.11	-8.45
2 years pa	11.56	11.15	0.41
3 years pa	0.59	9.53	-8.94
4 years pa	8.02	8.91	-0.89
Since inception pa Date: December 2018	9.13	8.86	0.27

Top 10 Stock Holdings

Name	Fund %
Cellnex Telecom	5.85
NextEra Energy	5.44
American Tower	4.93
Vinci	4.91
Ferrovial	4.80
Transurban Group	4.68
Sempra Energy	4.32
Cheniere Energy	4.20
Terna	4.05
Getlink	4.05

Sector Allocation

Sector	Fund %
Communications Infrastructure	16.28
Energy Infrastructure	7.43
Transportation	31.15
Utilities	42.64
Cash	2.50
Total	100.00

Region Allocation

Country	Fund %
Asia Pacific	10.77
Europe	39.19
North America	41.74
United Kingdom	5.79
Cash	2.50
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.



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Infra-know

The Inflation Reduction Act of 2022 (IRA) was clearly a game changer for the build-out of renewable energy in the United States. It creates significant tax credits for renewable energy projects being built over the next ten years, at least. Given the attractive nature of these incentives, companies are looking to deploy significant amounts of capital into renewable energy development in the US. Other nations are concerned that this may suck renewable energy investment out of their countries, and as a result there are moves afoot to replicate the incentives in places such as Canada and Europe. If such incentives are passed, then this would have the impact of boosting the whole renewable energy sector and accelerate the energy transition around the world. One to keep an eye on!

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