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Ausbil Global Essential Infrastructure Fund – Unhedged

Quarterly performance update

June 2023

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'We are seeing good opportunities to play secular themes such as the energy transition and Re-Powering Europe'

Performance Review

Fund performance for the quarter ending June 2023 was -0.31% (net of fees) versus the benchmark return of +2.62%, as measured by the OECD G7 CPI Index plus 5.5% pa.

Equity markets were generally strong during the quarter, adopting a 'risk-on' attitude as the expectation of a recession in the US abated. There was, however, significant divergence amongst stock and sector performances, with a handful of AI driven tech stocks fuelling the rally in the US market.

The lowering of recession expectations combined with sticky inflation also meant the market adopted the stance that interest rates are unlikely to come down in the near-term. This led to defensive and longer-dated assets, such as infrastructure to perform relatively poorly.

On average, Essential Infrastructure stocks fell 1.9% during the quarter (in local currency terms), with North America falling 3.6%. Utilities were the weakest sector, falling 3.4% as investors looked to increase risk in their portfolios and reduce defensive positions. Similarly, mobile phone towers in the US fell 9.4% in the quarter as investors were looking to reduce defensive positions and also longer-dated assets in the US.

Conversely, European stocks performed well this quarter, rising 2.6%, on average, with Transportation companies particularly strong, rising 4.8%.

Looking at individual companies, Williams was the strongest performer in the Fund, rising 10.9%, followed by Ørsted 10.5%. Ørsted, the global leader in offshore wind development, delivered a solid set of results and an upbeat investor day. European transport company, Ferrovial, Italian electricity transmission companies Terna and Getlink, and the Channel Tunnel operator, all rose over 5% in the quarter.

On the negative side, UK water company Pennon was the biggest faller in the Fund, down 18.6% in the quarter. Fellow UK water company Severn Trent also fell 8.8% as the UK water sector suffered from the news that privately owned Thames Water may need to seek financial help from the UK government. We view Thames as an isolated situation. The company has suffered from poor performance and high levels of debt for many years.

Portfolio Strategy

The increasingly positive view of the US economy led to a sell-off in defensive sectors in favour of more cyclical sectors, such as technology. Defensive sectors are also out of favour because interest rates are likely to remain higher for longer. Whilst we do not think that the Fed is likely to cut interest rates in 2023, we do believe that we are approaching the last rate hike in this cycle.

In the context of peaking interest rates, we believe that sectors that have been sold off (such as utilities and mobile phone towers) represent a very attractive risk-reward profile currently. Our base-case scenario of interest rates peaking and elevated inflation is a positive driver across Essential Infrastructure that we believe is not being reflected in share prices.

Longer-duration assets such as mobile phone towers should benefit from interest rates peaking. Companies that can capture inflation in their revenues, such as toll roads, airports and utilities, should continue to benefit for the next few years as the lagging impact of inflation feeds through into revenues.

In addition, we are seeing good opportunities to play secular themes such as the energy transition and Re-Powering Europe that we believe are currently being overlooked by the market.

We therefore remain positive on the outlook for Essential infrastructure and continue to be fully invested.

Performance

Returns as at 30 June 2023

Period	Fund Return % Net	Bench-mark[1] %	Out/Under Performance % Net
1 month	-0.71	0.81	-1.52
3 months	-0.31	2.62	-2.93
6 months	4.19	5.67	-1.48
1 year	4.80	12.63	-7.84
2 years pa	8.17	11.92	-3.75
3 years pa	7.59	10.19	-2.60
4 years pa	5.09	9.38	-4.29
Since inception pa Date: December 2018	8.95	9.10	-0.15

Top 10 Stock Holdings

Name	Fund %
Cellnex Telecom	6.19
NextEra Energy	5.81
Transurban Group	5.68
American Tower	5.64
Sempra Energy	4.80
SBA Communications	4.62
Orsted	4.44
CenterPoint Energy	4.40
Ferrovial	4.05
Williams Cos	3.98

Sector Allocation

Sector	Fund %
Communications Infrastructure	16.44
Energy Infrastructure	6.93
Transportation	26.64
Utilities	48.77
Cash	1.21
Total	**100.00**

Region Allocation

Country	Fund %
Asia Pacific	8.46
Europe	37.59
North America	47.47
United Kingdom	5.27
Cash	1.21
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

We often get asked about the environmental credentials of airports as aviation is one of the most challenging industries to decarbonise, contributing 2.5% of the world's total carbon emissions. Whilst the airports cannot control the emissions of airlines, they have made significant commitments, both in the short and long-term, to reduce emissions across their diverse operations, from operating freight and transport facilities to car parks, hotels and retail spaces, and development. In the short-term, airports have installed power saving devices such as LED lights, solar panels, and have also signed supply agreements for renewable energy. In the longer-term, all the airports we invest must have net-zero commitments by 2050. Of course, we expect, and we encourage, companies to meet these net zero target much earlier.

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