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Ausbil Global Essential Infrastructure Fund – Unhedged

Monthly performance update

July 2023

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'Valuations for several sectors are looking as cheap as they have done for a long time'

Performance Review

Fund performance for the month ending July 2023 was -0.33% (net of fees) versus the benchmark return of +0.78%, as measured by the OECD G7 CPI Index plus 5.5% pa.

Equity markets continued their strong run in July with several indices close to all-time highs. A resilient US economy combined with below expectation inflation led to an increased belief in a soft landing. This combined with expectations of an end to the rate hiking cycle drove markets.

Given the fading recession fears and continued "risk on" attitude, it was not surprising to see Essential Infrastructure lag the broader market. Essential Infrastructure stocks on average rose by 0.5% in the month, with North America (+1.1%) being the strongest region. European stocks fell by 1.8% whilst the UK rose by 1.4%, stabilising after being hit hard recently on the back of the Thames Water debacle.

Sector-wise, energy infrastructure was the best performing sector, rising by 2.1%. Stocks in the US had been weak over the past few months, and dividend yields for several names were trading above 6% which looked too cheap in our view. Utilities in North America rose 1.3% in the month. The sector has been volatile recently and July saw it bouncing from close to recent lows.

The mobile phone tower sector in the US, was the weakest sector. The sector fell 4.1% on the back of a report in the Wall Street Journal alleging that the telcos in the US had a huge potential liability to replace lead sheathed cables around the country. If true, this could impact the likes of AT&T and Verizon to invest in their mobile phone networks. However, the issue has since been downplayed by various sources and any potential liabilities look manageable. Fund names such as SBA Communications (-5.5%), Crown Castle (-5.0%) particularly suffered because of this. We view these concerns as overblown, and the impact on these companies should be minimal.

On the positive side energy infrastructure names Cheniere (+6.2%) and Williams (+5.6%) enjoyed strong performance. We continue to believe this sector offers a lot of value, especially given the attractive yield support.

Portfolio Strategy

Whilst the increased expectations of a soft landing led to underperformance of Essential Infrastructure, the flipside is that valuations for several sectors are looking as cheap as they have done for a long time. Sectors such as mobile phone towers, energy infrastructure and utilities, particularly in the UK are offering very attractive opportunities for long-term investors.

Regardless of valuation support, given the recent run in broader markets, it would perhaps not be a surprise to see a pullback. If this were to happen, infrastructure should be an appealing proposition, given its defensive cashflows and attractive valuations.

We continue to believe that interest rates are approaching their peak, which should bring relief to sectors that have suffered as interest rates have risen (such as utilities and mobile phone towers).

In addition, the beneficial but lagging effect of inflation should continue to feed through to sectors such as toll roads, airports and utilities, where inflation leads to higher revenues. This should be a positive earnings driver for the sector for the next couple of years, regardless of how quickly inflation gets back to target.

We therefore remain positive on the longer-term outlook for Essential Infrastructure and continue to be fully invested, despite short-term negative sentiment.

Performance

Returns as at 31 July 2023

Period	Fund Return % Net	Bench-mark[1] %	Out/Under Performance % Net
1 month	-0.33	0.78	-1.12
3 months	-5.06	2.58	-7.64
6 months	2.54	5.39	-2.85
1 year	-0.83	12.35	-13.19
2 years pa	5.20	11.94	-6.74
3 years pa	7.45	10.29	-2.84
4 years pa	4.74	9.43	-4.68
Since inception pa Date: December 2018	8.70	9.11	-0.41

Top 10 Stock Holdings

Name	Fund %
Transurban Group	5.78
NextEra Energy	5.73
American Tower	5.34
Sempra Energy	4.91
Cellnex Telecom	4.86
Ferrovial	4.29
SBA Communications	4.12
Vinci	3.95
Ørsted	3.81
Williams Cos	3.80

Sector Allocation

Sector	Fund %
Communications Infrastructure	15.23
Energy Infrastructure	8.51
Transportation	27.21
Utilities	48.67
Cash	0.38
Total	**100.00**

Region Allocation

Country	Fund %
Asia Pacific	8.57
Europe	36.89
North America	48.64
United Kingdom	5.53
Cash	0.38
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 first nuclear reactor to be built from scratch in 30-years has finally gone online in the US. Vogtle Unit 3 in Georgia can generate 1,100 megawatts and power up to 500,000 homes. However, it also came in $17bn over budget and 7-years late. This has led to questions as to whether or not any new reactors will be built in the US.

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