

UBS CBRE Global Infrastructure Securities Fund

September 2022

Fund description

The Fund is an actively managed fund investing in global listed infrastructure securities across a range of geographic regions and infrastructure sectors which may include utilities, transportation, energy infrastructure and communication infrastructure.

Target market

The Target Market Determination (TMD) for the Fund sets out the class of consumers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs. To access to the TMD and other Fund documentation visit our [website](#).

Investment strategy

The Fund will invest in listed infrastructure securities issued by global infrastructure companies, which are entities located throughout the world that derive at least 50% of their revenues or profits from, or devote at least 50% of their assets to, the ownership, management, development or operation of infrastructure assets.

Investment return objective

The Fund aims to provide a total return consisting of capital growth and income that outperforms (after management costs) the FTSE Global Core Infrastructure 50/50 Index (Net AUD Hedged over rolling three year periods).

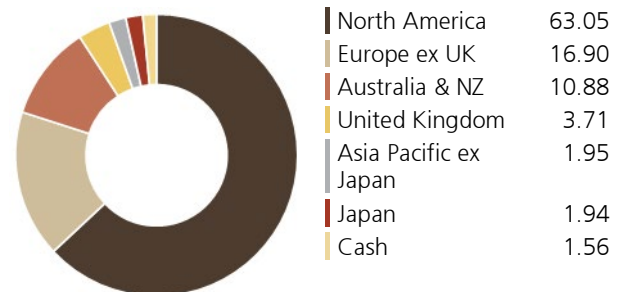
Top 10 positions by stock

Name	Country	Profile Weight (%)
NextEra Energy	United States	5.39
American Electric Power Company	United States	4.45
Transurban Group	Australia	4.30
Atlas Arteria	Australia	4.26
Cheniere Energy	United States	3.98
American Tower Corporation	United States	3.79
Cellnex Telecom S.A.	Spain	3.63
WEC Energy Group	United States	3.49
Ameren Corporation	United States	3.27
VINCI SA	France	3.19
Top 10 Total		39.75

Fund information

Inception date	4 August 2016
Fund size	\$ 150.7 m
Management fee	1.00% pa
Minimum initial investment	\$50,000
Distributions	Quarterly
Buy/sell spread	+/- 0.20%
Currency management	Hedged
APIR code	UBS0064AU
Inception date	4 August 2016

Investment portfolio (%)



Top 5 overweight by stocks

Name	Country	Active Weight (%)
VINCI SA	France	3.19
Atlas Arteria	Australia	3.15
Cellnex Telecom S.A.	Spain	2.95
American Electric Power Company	United States	2.55
Cheniere Energy	United States	2.49

Top 5 underweight by stocks

Name	Country	Active Weight (%)
Southern Company	United States	-3.09
Duke Energy Corporation	United States	-3.06
Atlantia	Italy	-2.26
Airports of Thailand Public	Thailand	-1.57
Adani Ports & Special Economic Zone	India	-1.52

Investment portfolio (%)

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	(11.40)	(7.57)	(3.71)	1.15	5.28	6.21
Benchmark**	(10.86)	(7.58)	(3.39)	(0.14)	3.87	5.04
Added Value	(0.54)	0.01	(0.32)	1.29	1.42	1.17

*Inception date: 4 August 2016. **FTSE Global Core Infrastructure 50/50 Index (Net) (AUD Hedged). Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Portfolio review

The Fund decreased 11.40% in September, lagging the index return.

The Fund's relative underperformance for the month was due to sector allocation decisions as stock selection was flat. The primary driver of the underperformance for the month was the Fund's underweight to the Emerging Markets region, which was the best performing region finishing down -6.2%. Emerging Markets continue to be atypically and relatively resilient during a period of market stress and the strong dollar.

Stock selection was positive in the Americas, where midstream and utilities shined. This, however, was offset by negative stock selection Asia, where Australian toll roads company Atlas Arteria underperformed, surprising the market with a large toll road acquisition and subsequent equity offering.

In Europe, positioning in the communications sector was the top detractor for the month as an overweight to underperforming European communications stocks was a drag on relative performance. The utilities sector was impacted by inflation concerns for renewable developers and rising power costs across Europe were headwinds to core integrated utility positions.

Market review

Listed infrastructure traded down 10.3% (AUD, hedged) in September.

Listed infrastructure traded down in September as global markets provided few places to hide as every region finished in negative territory. Rising interest rates, elevated commodity prices, sustained inflation, and hawkish central banks have kept pressure on equity returns this year. Crude oil prices fell, helping ease some future inflationary concerns for the near term; however, natural gas prices remained elevated with the winter season on the horizon. Central banks are progressing with their tightening policies in an effort to suppress demand, which has been an ongoing headwind to equity and bond returns alike.

Outlook

The escalation of risk factors continues as we enter 4Q amidst fears of a central bank induced global recession resulting from tightening measures meant to curb inflation all while geopolitical concerns remain elevated. While infrastructure stocks have been dragged down alongside broader market volatility, we believe earnings resiliency and consistency of forward outlooks highlighted by infrastructure companies in the next few months will be a positive differentiator for the asset class.

Given the elevated risks, we have incorporated a global recession in Q1 2023 in our underwriting. This will pose greater challenges to volume-sensitive infrastructure companies, many of which are still recovering from limited global mobility since 2020. Structurally and fundamentally, however, the majority of infrastructure stocks are poised to see counter-cyclical investment opportunities given the need for energy security, clean energy generation, broad decarbonization and digitalization on a global scale.

Inclusive in the updated underwriting is a higher interest rate outlook. We assume refinancing using the current curve. Leverage overall remains prudent and well below the global financial crisis levels. The impact of even higher rates on expected earnings is muted due to the long-term maturity schedules and generally fixed rate financing. Infrastructure companies operate with average net debt/ enterprise value ratios of 33%, with just 13% of fixed rate debt maturing the next 3 years.

The combined impact results in a reduction in our earnings growth forecasts in 2023 from 10.5% to 8.5% (excluding airports in both due to on-going pandemic impact), and we still expect 2024 earnings to be greater than 7% as well.

Despite recessionary risks and a higher rate environment, there remain many positive tailwinds that have emerged, notably the Inflation Reduction Act in the U.S. and measures being taken by Europe regarding energy security and decarbonization. Investment in energy transition represents a countercyclical megatrend that will drive resilient earnings growth for utilities and midstream through a potential recession. Moreover, regulated returns are generally based on a spread to the company's cost of capital, so rising rates will lead to rising returns. In contracted assets, like towers or wind generation, demand is well ahead of supply, which continues to afford pricing power to the asset owners which means returns also are ahead of increasing costs of capital.

We remain highly convicted in the fundamental positioning of our infrastructure fund. Valuations remain attractive on absolute terms and historically cheap versus private markets. We expect our companies to generate consistently positive earnings growth the next several years, even allowing for higher rates and weaker economic conditions.

Client Services

Telephone: (03) 9046 4041 Freecall: 1800 572 018 Email: ubs@unitregistry.com.au www.ubs.com/am-australia

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