

4D Emerging Markets Infrastructure Fund

Performance report | 30 June 2023

Overview

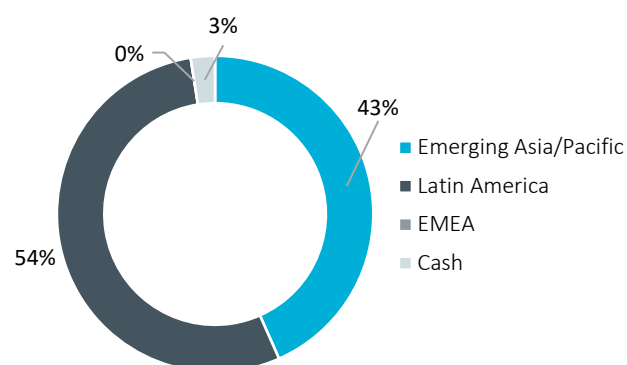
4D Infrastructure is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies, trading at or below fair value with sustainable, growing earnings combined with sustainable, growing dividends. The 4D Emerging Markets Infrastructure Fund aims to outperform the OECD G20 Inflation Index + 8% p.a. over the medium to long term (before fees).

Net client returns (after fees and expenses)

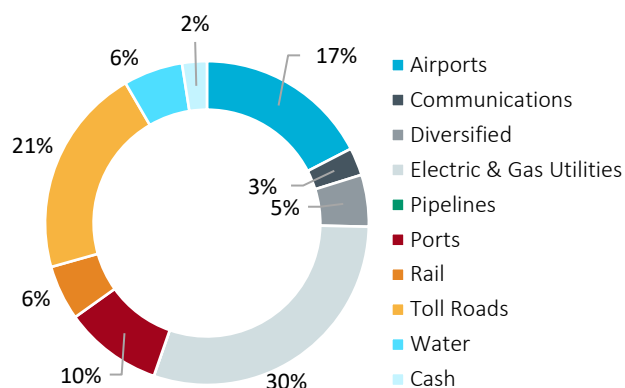
	1 month	3 months	1 year	3 years p.a.	5 years p.a.	Since inception ² p.a.
Fund	4.52%	6.59%	19.55%	11.78%	8.52%	5.41%
Benchmark ¹	1.13%	3.62%	15.43%	14.54%	13.33%	12.94%
Value added	3.39%	2.97%	4.12%	-2.76%	-4.81%	-7.53%

¹Value added' calculation does not use rounded performance figures. Past performance is not indicative of future performance.

Regional breakdown



Sector breakdown



Top 10 positions

Stock	End weight %
CCR	5.79
Jasa Marga	5.75
Ecorodovias	5.70
CEMIG	5.63
Rumo	5.49
Shenzhen International	5.18
Santos Brasil	5.04
ASUR	4.95
GAP	4.90
ENN Energy	4.64
Total	53.06

Portfolio performance review

The 4D Emerging Market Infrastructure Fund was up a net 4.52% (AUD) in June, out-performing the benchmark return of 1.13% (by 3.39%). Currency contributed 7bps to performance in June.

The strongest performer for June was Indonesian toll road operator Jasa Marga up 14.1% as the market starts to take interest in the very attractive fundamentals ahead of a partial sale of their Trans Java corridor.

The weakest performer in June was Chinese airport operator BCIA down 7.1% as China's re-opening remains sluggish with travel not recovering as fast as originally anticipated.

Markets remain volatile on inflation/interest rate/economic growth concerns, and recently emerged bank liquidity issues. Central Banks are tightening monetary policy to get inflation back to within target bands. The current share price volatility ignores the fact that listed infrastructure, as an asset class, can fundamentally do well in an inflationary environment, with explicit or implicit hedges and long-term predictable earnings profiles underpinned by contract or regulation. Infrastructure is also positioned well should central banks overshoot and we face near term recessionary pressure. We believe it is a sensible portfolio allocation at all stages of the economic cycle. We also believe the current pricing is a buying opportunity for the asset class.

Month in review

Global stock markets bounced back in June, with some US markets entering bull market territory from the October 2022 lows. This is in the face of continued hawkish tones from developed market central bankers and sluggish growth data points from Europe & China.

In the US, the Fed held rates flat for the first time since their tightening cycle began in March 2022, with the market repricing future rate cuts well into 2024. There were several soft economic data points in the month, with ISM Services index falling to 50.3 (two thirds of the US economy) and manufacturing remaining in deep contraction, as it is across Europe and Asia. Core inflation continues to be sticky, at 5.3% YoY (from 5.5%), as headline readings fade with falling energy and food prices. On a positive note, house prices, homebuilder confidence and housing starts continue to surprise to the upside as inventory dwindles and those in established housing with ultra low 30 year mortgages are stuck with "golden handcuffs". This is keeping a bid under US housing.

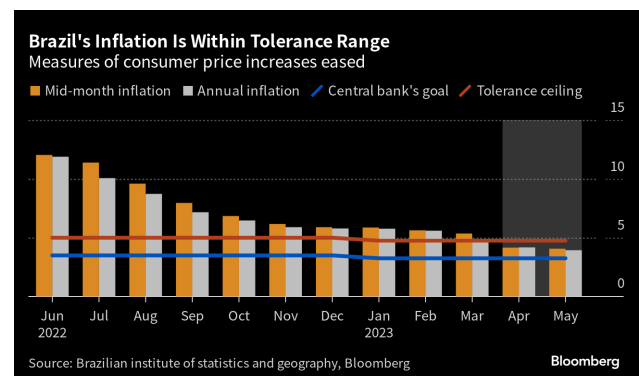
In the UK, the economy saw similar dynamics with a weakening services industry and a deepening contraction in the manufacturing sector. To the surprise of the markets, core inflation increased to 7.1% YoY, the highest in over 30 years. This forced the BoE's hand, and they raised rates 0.5% to 5% - the highest level since 2008, with the market pricing in peak rates north of 6% by the end of 2024. The BoE has a particularly difficult problem to tackle – with wage

price growth hitting record levels at 7.2% annual growth in the 3 months to April – evidence of an inflation-wage price spiral for High Street.

Europe is following a similar but not as heightened predicament – with strong wage growth, weak consumer spending, sticky core inflation and stagnant productivity forcing the ECB to raise rates 0.25%.

Moving to Asia, the Chinese economy continues to be sluggish as it digests its reopening phase which started 6 months ago. This was rather broad based in the June data, with soft retail sales, industrial production, and slowing property investments and credit demand. Stimulus measures are starting to be expected by the market, with broad expectations across structural reform, consumption led stimulus and potential infrastructure spend.

A different scenario is facing Latin American economies, who broadly started raising rates earlier, with inflation falling across Brazil and Mexico which is allowing the central banks to start considering monetary easing sooner than their DM counterparts. In Brazil, annual inflation eased to 3.94% in May which is within the central bank's tolerance range (see below) and the market is now pricing in cuts in August 2023. Record harvests in the agricultural sector are supporting economic growth, whilst President Lula stabilises his administration and fiscal policy direction.



The privatisation of essential services found its way back into the media in the UK, with Thames Water at risk of being placed in a special administration regime by the UK regulator. The unlisted company is the most geared out of all the unlisted and listed water companies and has had a poor performance record of water leaks and sewage contamination. Several of the listed and unlisted water companies have been dealing with these contamination issues and fines, and the regulator must weigh this up with long term investment needs and required returns to maintain service quality across the sector. While we believe there is a strong global record of better service quality from privately held utilities over government run operations, UK water regulation has long been considered some of the toughest in the world and maybe the recent performance of a few could trigger a revisit of the structure of the sector and the regulation supporting it.

Fund details

Feature	Information
APIR code	BFL7394AU
Investment manager	4D Infrastructure
Portfolio manager	Sarah Shaw
Reporting currency	A\$ Unhedged
Recommended investment period	Five years
Stock / cash limit	+7% / 10%
No. of securities	27
Application/redemption price (AUD) ³	1.1959 / 1.1911
Distribution frequency	Annually
Management fee ⁴	1.15% p.a. (including GST)
Performance fee ⁵	10.25% p.a. (including GST)
Buy/sell spread	+/- 0.20%
Minimum investment (AUD)	25,000

How to invest

The Fund is open to investors directly via the PDS (available on our [website](#)), or the following platforms. Visit [How to invest](#) to find out more.

Platforms

Hub24 (IDPS)

Mason Stevens

Macquarie Wrap (IDPS)

Get in touch



4Dinfra.com



1800 895 388 (AU) or 0800 442 304 (NZ)



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1 OECD G20 Inflation Index + 8%.

2 Inception date is 16 August 2017.

3 All unit prices carry a distribution entitlement.

4 Management fee is 1.15% p.a. (including GST net of reduced input tax credits) of the Net Asset Value of the Fund.

5 Performance fee is 10.25% (including GST net of reduced input tax credits) of any amount by which the investment return is greater than the return of the benchmark (OECD G20 inflation index + 8% per annum). All values are in Australian dollars.

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