4D infrastructure

4D Emerging Markets Infrastructure Fund

Performance report | 30 September 2023

Overview

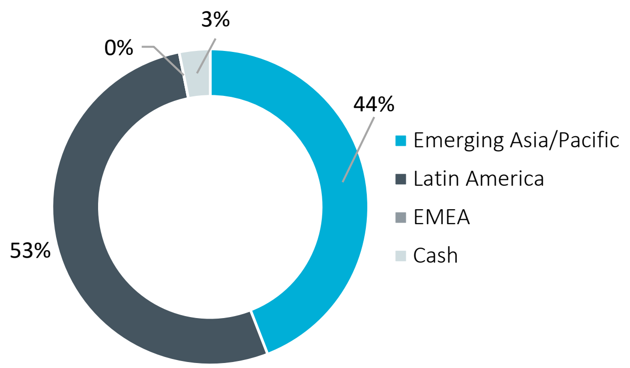
4D Infrastructure is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies, trading at or below fair value with sustainable, growing earnings combined with sustainable, growing 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	-2.10%	-4.82%	17.35%	12.90%	6.48%	4.34%
Benchmark[1]	1.07%	3.25%	13.89%	14.99%	13.42%	12.96%
Value added	-3.17%	-8.07%	3.46%	-2.09%	-6.94%	-8.62%

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

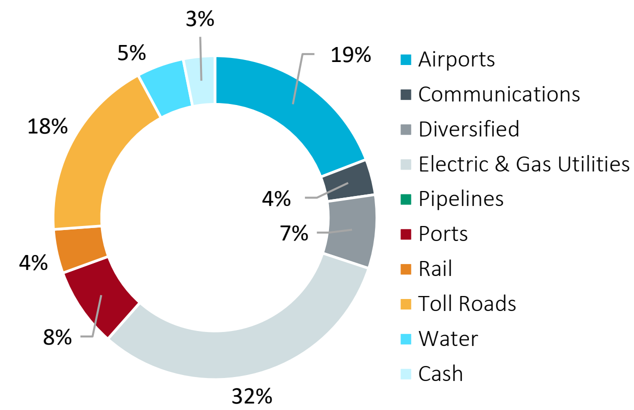
Regional breakdown



Top 10 positions

Stock	End weight %
Ecorodovias	5.23
CCR	5.13
Jasa Marga	4.95
CEMIG	4.82
GAP	4.70
China Resources Gas	4.66
ENN Energy	4.66
OMA	4.60
Rumo	4.39
ASUR	4.37
Total	**47.51**

Sector breakdown



Portfolio performance review

The 4D Emerging Market Infrastructure Fund was down a net 2.10% (AUD) in September, under-performing the benchmark return of 1.07% (by 3.17%). Currency detracted 82bps from performance in September.

The strongest performer for September was Chinese waste operator, Canvest Environmental up 9.2%, re-rating from an over sold position in August.

The weakest performer in September was Chinese diversified operator, Shenzhen International down 13.4%. With some small property exposure the name has been caught up with the volatility of that sector and is oversold on sentiment. The infrastructure fundamentals of this stock remain in tact and are very attractively valued at these levels.

Markets remain volatile on inflation/interest rate/economic growth concerns. Most developed market Central Banks are getting close to their peak policy rates, with a view to hold rates higher for longer, in an effort to get core inflation back to within target bands over a sustained period. 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

The rise in global bond yields extended in September, with all the major central banks holding their policy meetings and surprising the market with hawkish rhetoric. US 10 year yields ended the month +46bps to 4.57%, and hit cycle highs of 4.68% during the month. This had a negative impact on both yield sensitive assets and wider risk assets, with the S&P 500 off 4.8% and US utilities falling 6%.

The sharp repricing in bond markets has been driven by a "higher for longer" narrative from Central Banks seemingly being finally accepted by the bond market, even with most central banks moving close to peak cash rates. The US Federal Reserve released its quarterly Summary of Economic Projections which reflected expectations of a stronger economic situation. It upgraded economic growth, lowered the forecast unemployment rate and increased its year end 2024 and 2025 Fed Funds Rate by 50bps. The market has pared back its expectations of 2024 rate cuts by over 50bps in the last quarter to <100bps of cumulative cuts.

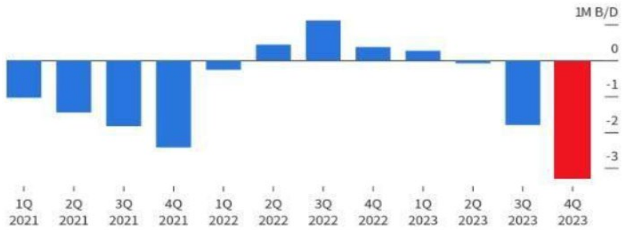
Chart 1: Median projections of Federal Reserve Board members and Federal Reserve Bank presidents

	2023	2024	2025
Change in real GDP	2.10	1.50	1.80
June projection	*1.00*	*1.10*	*1.80*
Unemployment rate	3.80	4.10	4.10
June projection	*4.10*	*4.50*	*4.50*
Federal Funds Rate	5.60	5.10	3.90
June Projection	*5.60*	*4.60*	*3.40*

(Source: Federal Reserve)

Oil continued its rise in September +8.5% to $90.79 driven by OPEC+ production cuts being extended to December amid a growing supply shortfall. This has further complicated the global headline CPI outlook, as well as the potential hit to consumer sentiment and discretionary spending. The US consumer outlook is further muddied by the resumption of student loan payments, which have been paused since March 2020 and could hit consumer spending by $9b per month according to Oxford Economics. All together, the sharp increase in US yields, oil and USD strength has significantly tightened financial conditions.

Chart: Oil Supply Squeeze



(Source: OPEC, Bloomberg)

Adding to uncertainty towards month end was a looming US government shutdown, which had the potential to negatively impact US GDP by 0.1-0.2% per week of shutdown. A last-minute deal pushed funding till mid-November and narrowly avoided a shutdown, with further political manoeuvring and uncertainty to no doubt continue.

On the data front in the US, headline CPI rose higher than expected to 3.7 YoY (from 3.2%) whilst core inflation declined to 4.3% (from 4.7%). Services beat expectations and are in expansionary territory (54.5), highlighting the resilience of the main engine of the post-COVID recovery.

China data showed signs of stabilisation, with August retail sales (4.6% YoY from 2.5%) and industrial production (4.5% YoY from 3.7%) both beating expectations. September Official Purchasing Managers Index (PMI) survey data showed a pick up in business conditions. Non-manufacturing PMI rose to 51.7 from 51 in August and manufacturing PMI rose to 50.2 from 49.7 in August, whilst new orders component readings (50.5 from 49.5) also showed expansionary conditions returning. The Chinese property market remains fragile, with the PBoC cutting the reserve requirement ratio (RRR) for banks by 25bps to increase confidence and lending to corporates and households.

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]	1.0971/1.0927
Distribution frequency	Annually
Management fees and costs[4]	1.20% 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)

client.experience@bennelongfunds.com

1 OECD G20 Inflation Index + 8%.

2 Inception date is 16 August 2017.

3 All unit prices carry a distribution entitlement.

4 Management fees and costs consist of annual management fee rate and capped recoverable expenses. For a detailed split of the fees and costs, please refer to the fund(s) PDS.

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.