4D Global Infrastructure Fund (AUD Hedged)

Performance report | 31 July 2023

Overview

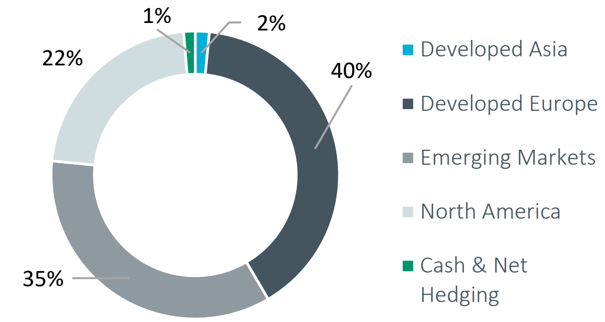
4D Infrastructure is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies that are trading below fair value and have sustainable, growing earnings combined with sustainable, growing dividends. The 4D Global Infrastructure Fund (AUD Hedged) aims to outperform the OECD G7 Inflation Index + 5.5% p.a. over the medium to long term (before fees) while mitigating the impact of currency by hedging foreign currency exposure.

Net client returns (after fees and expenses)

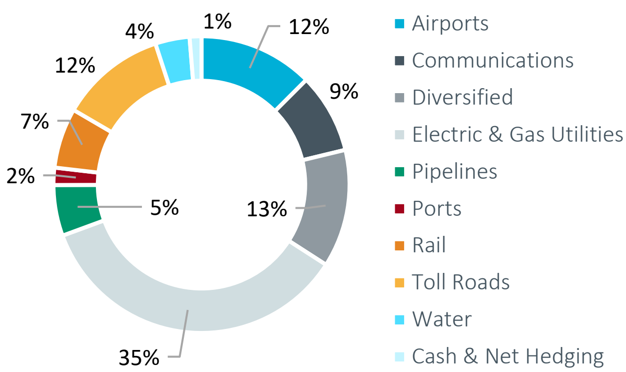
	1 mth	3 mths	6 mths	1 year	3 years p.a.	Since inception[2] p.a.
Fund	1.07%	0.62%	3.37%			2.83%
Benchmark[1]	1.03%	2.84%	4.51%			11.04%
Value added	0.04%	-2.22%	-1.14%			-8.21%
FTSE Global Core Infra 50/50 Total Return Index[3]	1.43%	-1.56%	-1.30%			-6.05%
S&P Global Infra. Net AUD Index[4]	1.33%	-1.75%	0.06%			-1.00%

'Value 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 %
Cellnex	6.70
Iberdrola	5.06
Williams	4.19
Shenzhen International	4.19
Sempra Energy	4.10
Getlink	4.00
Jasa Marga	3.78
AENA	3.59
Ferrovial	3.55
Vinci	3.50
Total	42.67

Portfolio performance review

The 4D Global Infrastructure Fund (Hedged) was up net 1.07% in July 2023, marginally out-performing the benchmark's return of 1.03% (by 0.04%) but under performing the FTSE 50/50 Infrastructure Index which was up 1.43%.

The strongest performer for July was Brazilian toll road operator, Ecorodovias up 26.3% as the market starts to re-rate on expectations of a Brazilian interest rate cut (which happened in early August – 50bps). The stock had been over sold due to its high growth outlook in a high interest rate environment so the downward trajectory eases concerns around the funding of growth.

The weakest performer in July was again Italian multi-utility ACEA, down 7% as uncertainty around management persists. We believe the concerns are justified and are reducing our position in the stock.

Markets remain volatile on inflation/interest rate/economic growth concerns. Central Banks are still looking to tighten 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

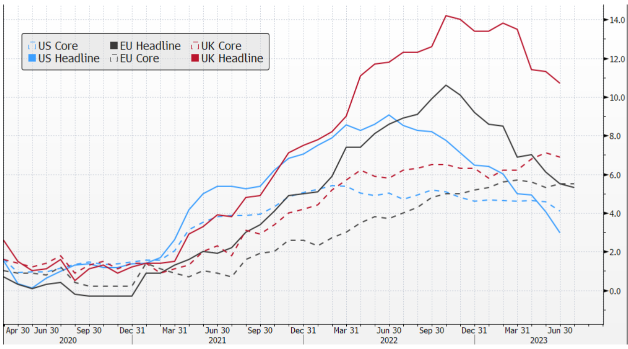
Markets moved through August with continued confidence in a soft landing or 'goldilocks' scenario as inflation continues to fall and growth holds up. This bodes well for risk assets, including equities (MSCI World +2.85% Local, MSCI EM +5.4% and S&P 500 up 3.11% in July), even with global long bond yields ticking higher over the month.

In the US, the growth backdrop was stronger than Europe. ISM manufacturing PMI rose to 46.4 in July (so growth declining less), ISM services was higher than expectations at 53.9 v 50.3 prior month, whilst unemployment ticked lower to 3.6%. Headline inflation fell to 3% YoY in June, the lowest in 2 years, with core inflation MoM at 0.16% annualising at 2%. Even as services prices remain elevated, goods prices continue to fall. The Fed lifted rates again 25bps in July, with the market at month end pricing in only a one in three chance of another rate rise before year end.

In the UK, which has struggled with strong wage price pressures keeping core inflation elevated, inflation fell faster than expected but still a very high 6.9% YoY for June. Despite being one of the most elevated inflation rates across developed economies, the market has taken confidence that the direction of inflation is at least downwards, even if well above Europe and the US. UK GDP data showed a -0.1% contraction in May, however retail sales held up in June (+0.8%).

Across Europe, there were some more sluggish economic datapoints that surprised to the downside – with PMI readings showing continued decline in manufacturing and services growth stalling, whilst lending demand has decelerated and lending conditions have tightened. The ECB raised another 25bps as expected and signalled they were not done raising this cycle. Euro wide core CPI was flat at 5.5%.

CPI



Spanish general elections surprised in July, with no majority coalition emerging and neither left nor right bloc with an easy path to form a government – despite pre-election polls suggested a change of government to the centre-right PP from Sanchez's ruling Socialist Party. The country is left in a state of flux till either a majority can be negotiated with smaller parties (such as the Socialists with the Catalans), or we go to another general election – but a different result is certainly not guaranteed.

In China, the much awaited Politburo meeting was held in the last week of July with a host of measures announced. These centred around boosting domestic consumption, releasing elevated household savings and directed support to the property sector. Whilst market sentiment has initially been positive to the slew of policy support announced, for the rally to hold there must be swift action on policy details and implementation. It is clear policy measures will be more targeted to boost consumer confidence and spending compared to prior stimulus periods, with a focus also on boosting private business confidence to encourage investments and hiring. The National Development and Reform Commission (NDRC) did make a statement that it wants to promote and attract more private capital investment in some selected infrastructure sectors, such as transport, water and clean energy, and will strengthen financing support.

Aside from the policy measures in China, which are being closely watched by markets, economic activity data from China remained sluggish and broadly was below expectations. Q2 GDP was 0.8% QoQ vs 2.2% in Q1 and consumer confidence remained weak with retail sales +3.1% YoY in June vs +12.7% YoY in May.

Lastly, oil prices were up +15.8% in July (WTI) on the improved growth outlook and sentiment – this will be important to watch as lower energy prices have been an important deflationary pressure globally and has helped push inflation lower over the last year.

Fund details

Feature	Information
APIR code	BFL3306AU
Investment manager	4D Infrastructure
Portfolio manager	Sarah Shaw
Reporting currency	A$ Hedged
Recommended investment period	Five years
Stock / cash limit	+7% / 10%
No. of securities	39
Application/redemption price (AUD)[5]	1.0180/1.0140
Distribution frequency	Quarterly
Management fee[6]	0.95% p.a. (including GST)
Performance fee[7]	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.

AMP North

BT Asgard (Panorama)

CFS (FirstWrap)

Dash

Hub24 (Super,IDPS)

Macquarie Wrap (IDPS,Super)

Netwealth (Super Service, Wrap Service)

Praemium (Super, Wealth)

Get in touch

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1 OECD G7 Inflation Index + 5.5%.

2 Inception date is 1 August 2022.

3 The reference index is the FTSE Global Core Infrastructure 50/50 Net Total Return in AUD. This is provided as an indictive comparison only and is not the Fund Benchmark.

4 The reference index is the S&P Global Infra AUD Net Total Return Index. This is provided as an indictive comparison only and is not the Fund Benchmark.

5 All unit prices carry a distribution entitlement.

6 Management fee is 0.95% p.a. (including GST net of reduced input tax credits) of the Net Asset Value of the Fund.

7 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 G7 inflation index + 5.5% per annum). All values are in Australian dollars.