4D Emerging Markets Infrastructure Fund

ARSN: 621 199 399

Monthly performance update

As at 29 February 2020

Overview

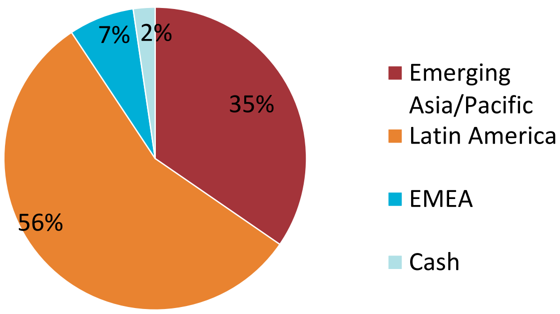
4D Infrastructure (4D) is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies, trading at or below fair value with sustainable, growing earnings combined with sustainable,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

Performance

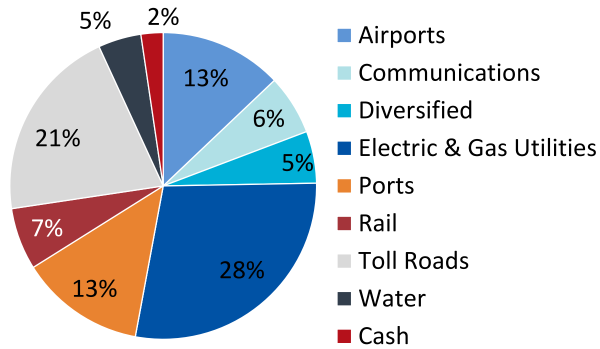
	1 month	3 month	6 month	1 year	2 years (pa)	3 years (pa)	Inception (pa)*
4D Emerging Markets Infrastructure Fund	-2.02%	2.47%	5.12%	12.05%	11.52%		8.93%
Benchmark: OECD G20 Inflation Index + 8%	0.81 %	3.02%	5.60%	11.83%	11.68%		11.42%
Over/under performance	**-2.83%**	**-0.55%**	**-0.48%**	**0.22%**	**-0.16%**		**-2.49%**

Performance figures are net of fees and expenses unless otherwise stated.
*Inception date is 16 August 2017

Regional Breakdown



Sector Breakdown



FUND DETAILS	
APIR Code	BFL7394AU
Investment Manager	4D Infrastructure
Portfolio Manager	Sarah Shaw
Benchmark	OECD G20 Inflation Index + 8%
Inception Date	16 August 2017
Reporting Currency	A$ Unhedged
Recommended Investment Period	Five years
Stock / Cash Limit	+7% / 10%
No. of Securities	33
Application/Redemption Price (AUD)[1]	1.2030/1.1958
Distribution Frequency	Annually
Management Fee[2]	1.15% p.a. (including GST)
Performance Fee[3]	10.25% p.a. (including GST)
Buy/Sell Spread	+/- 0.30%
Minimum Investment (AUD)	25,000

Top 10 Positions

IN ORDER OF PORTFOLIO WEIGHT	END WEIGHT %
DP World	7.00
Shenzhen International	5.48
CEMIG	5.34
Jasa Marga	5.04
GAP	4.92
Ecorodovias	4.76
CCR	4.75
Rumo	4.52
TAESA	4.14
Telesites	4.13
Top 10 Total	**50.07**

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Portfolio performance review

The 4D Emerging Market Infrastructure Fund was down a net 2.02% (AUD) in February, under-performing the benchmark return of 0.81% (by 2.83%).

The best performer for the month was global port operator DPWorld, up 16% as, disappointingly, the parent is seeking to take it private given their view that the market is not reflecting true value.

The balance of the portfolio was largely caught up in a virus led sell off which we discuss in detail below.

Month in review

February 2020 was the month coronavirus fears hit global equity markets hard. The US S&P 500 was down 8.23%, the broader MSCI World Index was down 8.41% while EMs were down 2.25%.

Investing in the age of corona

'Don't Panic' the famed catchphrase from Douglas Adam's 1980's science fiction comedy '*The Hitchhiker's Guide to the Galaxy*' is, we believe, an appropriate axiom when considering the current state of play in global equity markets infected by the coronavirus.

In a similar vein, but from an infinitely more credible source, *Firstlinks (Edition 346)* provides some very relevant and inciteful comments from Berkshire Hathaway. Charlie Munger is quoted as saying:

"Sit on your ass investing. You're paying less to brokers, you're listening to less nonsense, and if it works, the tax system gives you an extra one, two, or three percentage points per annum. What we really like is buying good-sized to very large first-class businesses with first-class management and just sitting there. You don't have to go from flower to flower. You can just sit there and watch them produce more and more every year. If you buy a business just because it's undervalued then you have to worry about selling it when it reaches its intrinsic value. That's hard. But if you can buy a few great companies then you can sit on your ass … that's a good thing."

Applied to current markets we believe the message would be to hang on to quality businesses you already own, or even add to your position. This is our view at 4D as we have always looked to own quality businesses, at the right price, and believe the current environment of a coronavirus infected global equity market is one of potential opportunity.

We believe the coronavirus issue will pass, but not without obvious and significant personal and economic pain including its impact on global growth. Some of the world's best and brightest medical research minds are focused on developing a vaccine. The reward for success is likely high in both financial and global recognition.

To illustrate the extent of the opportunity presenting to us we asked our research team to provide a summary of the most attractive, high quality investment opportunities in their coverage universe in order to demonstrate just how much recent share price movements have impacted them. See the Annexure attached for a summary of their views.

For example, ***EM utilities*** have sold-off over 5% in February. Yet utilities have little direct exposure to reduced economic activity or GDP growth as their earnings are subject to regulation. We believe utilities are currently offering good buying opportunities.

Communication infrastructure share price volatility, down over 6% in the last week of February, is overdone in our view due to earnings tied to: 1) demand for data (eg. video telephony); and 2) limited exposure to changes in GDP.

Mexican airports were some of the weakest names within the Infrastructure Universe in February. Are people associating 'corona' with Mexico and selling anything associated? If not, then there is little justification for the double digit declines experienced in the last week of the month – they have minimal exposure to Asia, have strong regulatory support and a robust domestic demand profile (OMA airport reported February traffic growth of 12.7%)

So we believe the times are right to not panic, employ what Charlie Munger would describe as some: '*sit on your ass investing',* while taking advantage of any extraordinary opportunities the market might offer.

Outlook

We have a very positive outlook for emerging market listed infrastructure (EMLI) over the medium term. There are a number of powerful macro forces at play, which we believe will continue to support the sector. For example, the world's population is expected to grow by 53% by the end of this century, which will be accompanied by an emerging middle class, especially in Asia. These forces will compel new, improved and expanded infrastructure around the world

How to invest

The Fund is open to investors directly via the PDS (available at 4dinfra.com).

Contact details

Call us on: 1800 895 388 (AU) or 0800 442 304 (NZ)
Email us at: client.services@bennelongfunds.com
Mail us at: Level 26, 20 Bond Street Sydney NSW 2000
Visit our website at: 4dinfra.com

Annexure – Why 4D believes the February 2020 market selloffs have been overdone

These tables highlight some of the investment opportunities we believe are emerging in the infrastructure sector as a result of the recent market selloffs.

Equity Market Indices February 2020 Performance

Index	February 2020 Performance	21-28th February 2020 Performance	Index	February 2020 Performance	21-28th February 2020 Performance
MSCI World Index (GDDUWI Index) [USD]	-8.41%	-11.47%	**MSCI EM Index (M2EF Index) [USD]**	-5.27%	-8.14%
US S&P 500 (SPX Index) [USD]	-8.23%	-12.37%	**S&P Global Infrastructure Index (SPGTINTR) [USD]**	-9.54%	-11.38%
FTSE 50/50 Infrastructure Index (FGCIICAT) [AUD]	-5.37%	-8.15%	**4D Investment Universe (Equal Weight) [AUD]**	-4.97%	-7.41%

4D Infrastructure Sectors/Stocks February 2020 Performance*

4D Sector/Stock & Feb Perf.	Commentary	Notes
Global Utilities **Feb 2020: -6.05%** **Feb 21-28: -8.68%**	Global utilities have not been immune to the equity market sell off. We believe the share price volatility has been overdone as these assets offer earnings un-correlated to economic activity as a function of them being a basic need as well as the structure of their regulatory environment which measures returns independent of volumes/economic activity. Not to ignore the potential fundamental negatives though. Commercial and industrial customers could be impacted by lower demand reducing energy utilisation delivered by utilities which could temporarily reduce utility earnings but this is a short term impact corrected by the regulatory model over time. We believe this is a buying opportunity for the sector but have looked at regional impacts and outcomes below.	Strong buying opportunity for pure play regulated Utilities as a result of limited economic exposure, and low/falling long term base rates creating valuation upside.
EM Utilities **Feb 2020: -5.42%** **Feb 21-28: -6.39%**	The performance of the EM utilities was relatively mixed with those with: 1) commodity exposure; and/or 2) weaker balance sheets selling off (justifiable in current environment) while those with strong balance sheets and supportive regulatory environments held-up better than the market to see EM utilities down less than the overall global infrastructure universe with Brazil a particular bright spot.	4D are looking for quality in an uncertain economic environment so continue to target those companies with strong balance sheets and regulated earnings. This helped mitigate the downside in February and we will continue to add to these quality positions if the market sells off.
Eg. Brazilian Utilities **Feb 2020: -4.03%** **Feb 21-28: -5.81%**	Brazilian utilities (as a group) held up well with earnings either contracted or regulated, government supportive of increased investment, privatisations on the agenda and balance sheets to support volatility and increased investment.	Maintain core positions in high quality assets.
Global Airports **Feb 2020: -12.61%** **Feb 21-28: -13.32%**	There was a huge sell off in global airports in February as the 2020 passenger outlook comes under significant pressure – part of this can be justified. Imposed quarantines, flight cancellations and altered travel plans will have a fundamental impact on 2020 earnings profiles for the global airports, although some are impacted more than others at this stage of the virus contagion. This earnings impact will be compounded by any sustained economic deterioration as airports are an economically sensitive sector. On a positive note lower commodity prices will support airlines (lower fuel prices) for a period. However, the February sell off was severe and in certain regions we believe an over reaction. It must be remembered that these assets have very long concession lives, or are perpetuity assets, with strong balance sheets (on balance) and regulatory frameworks	A near term stock and regional buying opportunity for those less impacted but oversold. A medium-term buying opportunity across the entire sub-sector on fundamental value. Maintaining existing positions as base.

	that will ultimately address the traffic deterioration within the regulated arm of the business and in many cases minimum revenue guarantees to support parts of the non-regulated business. To lose over 10% of value in a single week is clearly a response to a short-term earnings shock not fundamental value. Importantly history tells us that when the 'event' resolves air traffic rebounds very quickly.	
Mexican Airports **Feb 2020: -9.73%** **Feb 21-28: -13.86%**	The sell-off of Mexican airports has been overdone. ASUR is the most exposed to international traffic within Mexico (Mexico makes up 63% of their total passengers) with international passengers accounting for 51% of total traffic across their Mexican airports. It is also the most exposed to tourist traffic in Mexico (Cancun accounts for 75% of Mexican airport traffic (international Cancun is 48% of total Mexican traffic). ASUR has commented that they have zero direct flights to Asia and Europe (the latest to be hit with the virus) makes up 6% of their passenger base. The stock is down >10% in 5 days. Further OMA, who has the least exposure to international traffic, with 88% of passengers domestic, is down >15%. All the Mexican airports have very strong balance sheets to support any near-term traffic weakness without threat to financial credibility. Further, the regulatory environment is also supportive when events such as these occur.	Significant buying opportunity. For example, forecasting zero international traffic in 2020 across the entire Mexican airport base (already beat as has been traffic in Jan and Feb) and a 40% cut to domestic traffic at every Mexican airport with associated margin and profit erosion, all the operators are offering a double digit return.
Chinese Airports **Feb 2020: -3.18%** **Feb 21-28: -8.57%**	Domestically, with over 780m residents in lockdown and globally, with numerous countries imposing China travel restrictions over the coronavirus, has collectively stalled the immediate passenger growth outlook. Together with the entire sector, Chinese Airports have experienced share price volatility, albeit lower than global peers. Investors will remain concerned with the immediate passenger outlook and the time in between to re-establish passenger confidence and restore the propensity to travel. Whilst long-term fundamentals remain solid, and duty-free minimum guarantees underpin non-aeronautical earnings, we expect share price volatility to continue. *We flag this regional sub-sector to highlight the relative performance of European and Mexican airports who have sold off further.*	Not an owner due to regulatory concerns impacting quality of the stocks, not on virus concerns.
Global Toll Roads **Feb 2020: -7.47%** **Feb 21-28: -8.73%**	Toll roads are economically sensitive stocks but are more domestically driven than airports. With the exception of China (see below) the direct impact of the coronavirus on the toll road sector to date has been muted. It will increasingly be felt in earnings if further cities/regions/countries are quarantined and the virus leads to a sustained economic deterioration. On the positive side, truck traffic could increase (at expense of consumer) if more on-line activity results from restricted movement. We also cannot ignore the impact of a further slowing in global growth should the coronavirus remain uncontained. Quality stocks have been oversold in regions largely unaffected.	Assessing individual stocks on a case by case basis we see a buying opportunity within this sector
Chinese Toll Roads **Feb 2020: -5.91%** **Feb 21-28: -7.00%**	Unsurprisingly, the Chinese toll road sector has been sold-off on market sentiment coupled with investor concerns regarding the short-to-midterm traffic outlook. These were compounded on 17th Feb when the Chinese Ministry of Transport announced an indefinite toll-free policy for all vehicles nationwide amid the coronavirus outbreak. Operators face an immediate liquidity crunch, with immediate zero cash inflow from road operations. The rationale behind the cut is to facilitate rapid work resumption and provide strong support for the stabilization of the overall economic and social situation in China. The government has pledged supportive measures for the toll-road operators, though it's currently uncertain what form this will take and whether this will provide immediate support to toll-road operators. Our bear-case analysis assumes the toll-free policy lasts the entire current year (despite consensus views of the most extreme case being until June this year) and no compensation measures (despite government pledge), under which scenario we still see robust fundamental valuation metrics.	Buying opportunity. Even with the implementation of the toll-free policy, our internal stress testing highlights that the sector and our holdings have adequate balance sheet capacity and flexibility to absorb the current situation.
Global Ports **Feb 2020: -7.20%** **Feb 21-28: -8.83%**	This is a relatively small sector and as with other user pays has been sold off on fears of slowing global economic activity. Ports are sensitive to economic shifts and stock fundamentals need to be assessed on a case by case basis. The sector was already relatively cheap on concerns of a slowing global economy and the current situation has compounded the impact. Quality names have been oversold. DP World (global port operator) was the strongest performer in our portfolio in February as it is under takeover – this helped support sector downside.	Stress testing of models with significantly reduced volumes sees the sector under valued. Maintaining existing exposure although losing DPW holding to parent take-out and unlikely to be replaced with port exposure.
Communications **Feb 2020: -1.28%** **Feb 21-28: -6.34%**	Communication infrastructure share price volatility is overdone due to earnings tied to: 1) demand for data (e.g. video telephony); and 2) with limited exposure to changes in GDP. You could actually see increased data usage as a result of the virus and associated quarantines which could see earnings upside.	Significant buying opportunity, communications infrastructure earnings will have little or no impact from changes in economic activity.

** Local currency performance. Sector performance is the average stock performance for stocks in the 4D Core Investible Universe, in the indicated sector, over the indicated time period*
Source: 4D

Please note that the comments in the table above are based on the opinion of the research team at 4D and have been prepared without taking account of your objectives, financial situation or needs. Please consult a professional adviser.

1. All unit prices carry a distribution entitlement.
2. Management fee is 1.15% p.a. (including GST net of reduced input tax credits) of the Net Asset Value of the Fund.
3. 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.