Performance report | 31 May 2024

4D Emerging Markets Infrastructure Fund

Overview

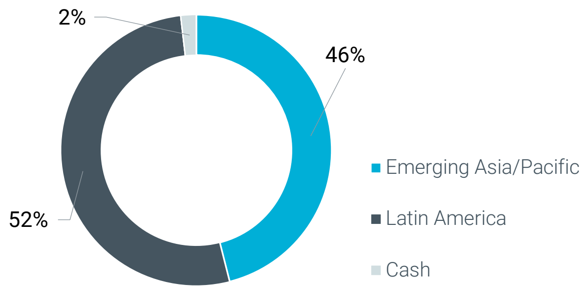
4D Infrastructure is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies, trading at or below fair value with sustainable, growing earnings combined with sustainable, growing 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 returns

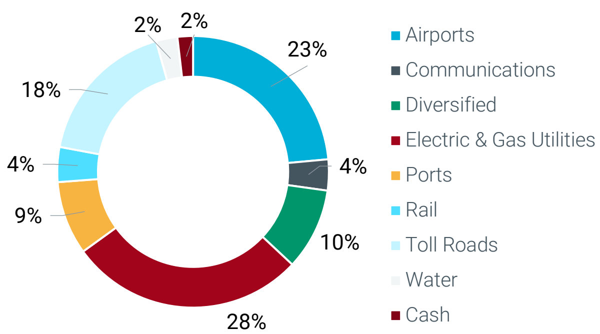
	1 mth	3 mths	1 year	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	-1.32%	-0.40%	4.99%	8.64%	3.88%	4.73%
Benchmark[1]	1.57%	4.30%	15.44%	15.85%	14.06%	13.28%
Value added	-2.89%	-4.70%	-10.45%	-7.21%	-10.18%	-8.55%

Performance figures are net of fees and expenses.
'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 %
Shenzhen International	5.56
OMAB	5.23
GAPB	5.07
Jasa Marga	5.03
ENN Energy	4.99
China Resources Gas	4.98
ECOR	4.90
Santos	4.80
ASUR	4.72
CCR	4.71
Total	49.98

A Bennelong boutique

Portfolio performance review

The 4D Emerging Market Infrastructure Fund was down net 1.32% (AUD) in May, underperforming the benchmark return of 1.57% (by 2.88%). Currency detracted 279bps from performance in May.

The strongest performer for May was Chinese water operator, Beijing Enterprises Water up 25.8%. This follows sector news around concession extensions and the stock rebounding off a very low base.

The weakest performer in May was Brazilian port operator, Santos Brasil down 14.5%. The stock had been very strong into the Q1 results and we believe this to be profit taking as the results were very strong with an improved outlook. The weakness is a buying opportunity.

Markets remain volatile on the outlook for inflation, interest rates and economic growth. Most developed market Central Banks are at peak policy rates, with market expectations of rate cuts in 2024 being pared back from the aggressive levels seen at the start of the year. The pace of disinflation has slowed, but the delayed impact of high interest rates on economic growth may yet to fully be seen. There remains a fine balancing act between holding rates in restrictive territory too long and hitting activity – and loosening too quickly before inflation is sustainably within target ranges. Listed infrastructure, as an asset class, fundamentally can do well in either scenario - with explicit or implicit inflation hedges and long-term predictable earnings profiles underpinned by contract or regulation.

Month in review

Global equity markets returned to a risk on mood in May after a weak April, with markets rallying on the news that US inflation avoided a fourth straight month of upside surprise, and evidence of a loosening labour market. US ten year bonds ended the month -18bps to 4.49% and are pricing in one and a half rate cuts for the remainder of 2024 (from just one cut at end of April).

The market has moved to the Fed's thinking that the next rate move is down, and not up, with a string of weaker economic, activity and labour data supporting this. The string of weaker economic releases, and growth tracking around potential, will be welcomed by policymakers in their aim to get inflation down to target.

Chart 1; Softer economic data pushing yields lower

Source; 4D, Bloomberg

In the US, April non-farm payrolls were lower than expected at 175k (vs 240k expected), the second lowest print in the last 12 months. Year over year wage growth ticked down to a three year low of 3.9% (from 4.1%), helping to offset concerns over the slow last mile of the disinflation process. A downturn in US manufacturing and services activity, and new orders and employment components, also point to future labour market softness and a slowdown ahead in US consumption. Retail sales also cooled, with the core control group -0.3% in April vs 0.1% expected and 1.1% in the month prior. Lastly, May's Core PCE inflation data cooled to 0.3% month on month, inline with April, after 3 months of upside surprises in Q1.

Chart 2; US ISM Services PMI

Source; Bloomberg, Standard Chartered

In China, the underlying activity data remains weak – spurring the government into further policy action. The government followed through on the issuance of ultralong government bonds to finance its economic and infrastructure programmes, with CNY1trn to be issued over six months. Other policies announced during the month added to an improved sentiment of increased directed government support to help the weakness in the property sector and its impact on business & household investment and confidence. The latest proposal is for the inventory of unsold homes to be put on government books with local state-owned enterprise being asked to purchase inventory from distressed developers. This 300bn yuan programme could reduce the housing inventory by as much as 19% - a step in the right direction. Other measures included removing floors on mortgage rates and lowering minimum down payments in a bid to shore up demand across cities.

May saw UK call for snap general elections on July 4, with PM Sunak's Conservatives on course for their biggest loss in a century.

Data out of Europe was upbeat. Eurozone GDP grew more than expected in Q1 at 0.3% quarter on quarter led by the four core economies – the fastest rate since 3Q22. This is after coming out of a short lived mild recession in 2H23 and broader stagflation for the last 18 months. Inflation continues to soften, with April core CPI at 2.7% year on year. The May early estimate core CPI reading ticked higher to 2.9% year on year, but is still lower and progressing towards the 2% central bank target faster than most other advanced economies.

Fund details

Feature	Information
APIR code	BFL7394AU
Investment manager	4D Infrastructure
Portfolio manager	Sarah Shaw
Reporting currency	A$ Unhedged
Recommended investment period	Five years
Cash limit	10%
No. of securities	27
Application/redemption price (AUD)[3]	1.1577/1.1531
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

client.experience@bennelongfunds.com

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

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.