4D infrastructure

Performance report | 30 November 2023

4D Emerging Markets Infrastructure Fund

Overview

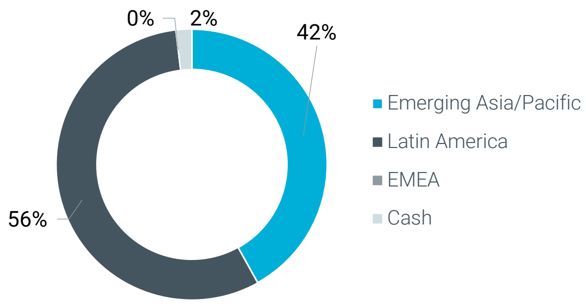
4D Infrastructure is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies, trading at or below fair value with sustainable, growing earnings combined with sustainable, growing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

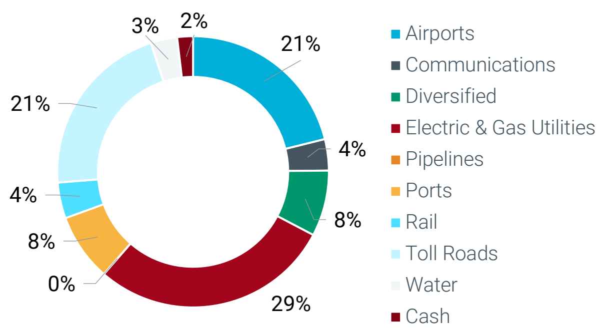
	1 mth	3 mths	1 year	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	4.81%	-2.87%	9.24%	8.14%	5.85%	4.09%
Benchmark[1]	1.34%	3.85%	14.73%	15.27%	13.58%	13.08%
Value added	3.47%	-6.72%	-5.49%	-7.13%	-7.73%	-8.99%

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 %
GAP	6.08
Ecorodovias	5.68
OMA	5.45
CCR	5.27
Jasa Marga	5.16
ASUR	4.64
CPFL Energia	4.57
Cemig	4.33
Rumo	4.28
China Resources Gas	4.25
Total	49.71

A Bennelong boutique

Portfolio performance review

The 4D Emerging Market Infrastructure Fund was up net 4.81% (AUD) in October, out-performing the benchmark return of 1.34% (by 3.47%). Currency detracted 292bps from performance in November.

The strongest performer for November was GAP up 25.8%. The stock was oversold (along with its peers OMA and ASUR) in October over shock regulatory news. Through the end of October/early November we significantly increased clarity on the changes and got comfortable with the valuation impacts. We took the opportunity to capitalise on the over selling to top up our positions allowing us to capture much of the November re-rating. Please reach out if you would like to see our detailed analysis of the changes and ramifications.

The weakest performer in November was Airports of Thailand, down 10.9% as a Government proposal to remove duty-free shops on arrival in an effort to get tourists spending in country created further downward pressure following an earlier announcement of concessionaire relief measures and incentives for airlines by Company management. We are currently assessing the impact to valuations.

Markets remain volatile on the outlook for inflation, interest rates and economic growth. Most developed market Central Banks are getting close to peak policy rates, with some expectations that rates will be 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 this environment, with explicit or implicit inflation hedges and long-term predictable earnings profiles underpinned by contract or regulation. However, should Central Banks overshoot with associated demand destruction, the asset class can also be positioned to capitalise on this.

Month in review

November saw a marked turnaround from the last 3 months of increasing long bond yields and drawdowns in risk assets, as the US ten years rose from 3.95% at the end of July to peak at 5% in October. MSCI World (Local) jumped 8.3% in November, its best month since November 2020, and US ten year bonds rallied with yields ending the month 60bps lower at 4.32%.

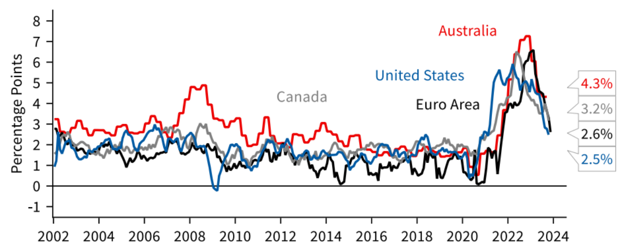
Much of the rise in bond yields over the last 3 months has been attributed to the "higher for longer" argument, driven by stronger than expected US economic data ("good news is bad news"), persistent inflation and increased Treasury issuances in 2024. November saw some data points showing a cooling US economic picture and labour market ("bad news is good news"), as well as inflation surprising to the downside and a step down in Q4 bond issuance guidance. All in all, these proved to be the catalyst for the market calling a peak in interest rates.

On the economic front, US data came in mostly softer. Non Farm Payrolls in October were 150k vs 180k expected and 336k in September, with prior month gains also revised lower. Current growth in the US is tracking at 1.2% annualised for Q4, down from 5.2% in Q323. The Institute of Supply Management (ISM) data for Manufacturing and Services were both weaker than expected, at 46.7 (v 49 expected) and 51.8 (v 53 expected). Retail sales also showed slowing, with core sales +0.2% vs 0.6% in September.

US inflation surprised to the downside, with Core CPI +0.2% MoM in October vs 0.3% consensus and 0.3% in September. Shelter inflation remains the biggest contributor to overall CPI, but there was a notable stepdown in the pace of monthly increases in October.

In Europe, inflation data cooled to the lowest level in two years. Core CPI was +0.1% MoM and 4.2% YoY, but most importantly now on a 6 month annualised rate below 3%. As can be seen below, the disinflation trends have been rapid and ahead of most Central Banker's schedules.

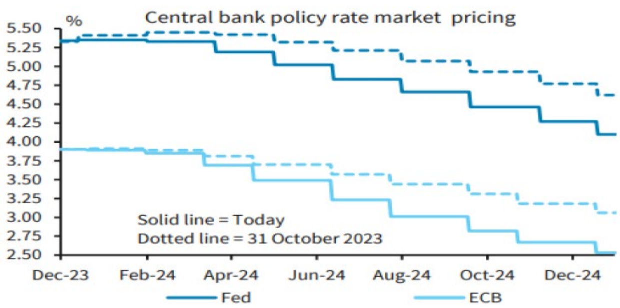
6 Month Annualised Core Inflation



(Source: *National Australia Bank*)

The softer economic data and lower CPI prints has moved market pricing for rate cuts next year, bringing forward the timing and magnitude of cuts for both the Fed and ECB. The market is now pricing in 114bps of Fed rate cuts and 75bps of ECB rate cuts by the end of 2024 – as seen below, both of these have moved markedly over the last month.

Fed & ECB market pricing changes for 2024 rate cuts



(Source: Barclays)

China saw weaker than expected exports, pointing to a softer global picture. However, better than expected imports gave hope of continuing domestic demand recovery. China's CPI fell back to deflation at -0.2% YoY in October due to a larger decline in food prices, whilst core prices were lower at 0.6% YoY. China's retail sales and industrial output rose more than expected, but fixed asset investment remained weak, dragged lower by property investment.

Despite the geopolitical instability in the Middle East, the softer global economic picture saw oil prices take a hit, sliding 6.2% in November to $75.96, taking its two month drop to 15.4%.

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	28
Application/redemption price (AUD)[3]	1.0885/1.0841
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.