4D Emerging Markets Infrastructure Fund

Performance report | 31 July 2022

Overview

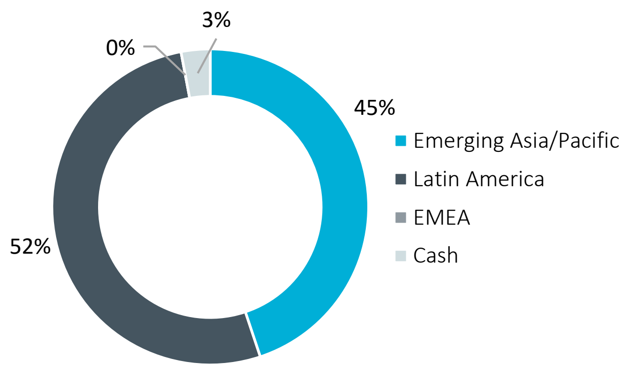
4D Infrastructure is a boutique asset manager investing in listed infrastructure companies across all four corners of the globe. Our investment objective is to identify quality infrastructure companies, trading at or below fair value with sustainable, growing earnings combined with sustainable, growing 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 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	Since inception[2] p.a.
Fund	-2.10%	-1.64%	1.53%	4.86%	7.72%	-2.45%	2.23%
Benchmark[1]	1.67%	5.40%	9.50%	17.36%	14.79%	13.35%	12.58%
Value added	-3.77%	-7.04%	-7.97%	-12.50%	-7.07%	-15.80%	-10.35%

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

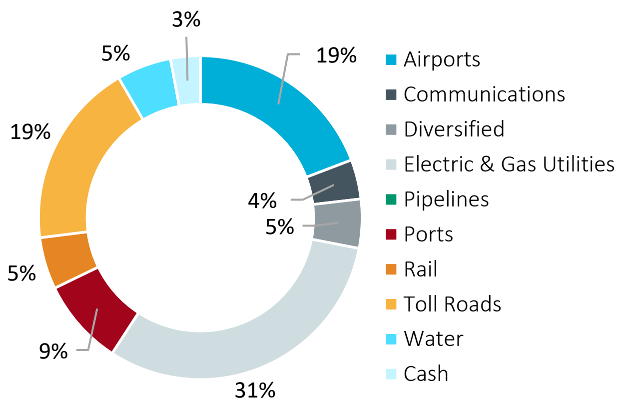
Regional breakdown



Top 10 positions

Stock	End weight %
ASUR	5.68
Jasa Marga	5.43
CCR	5.23
Rumo	5.19
GAP	5.03
CEMIG	4.97
Shenzhen International	4.90
China Merchant Port Holdings	4.87
OMA	4.85
TAESA	4.09
Total	50.23

Sector breakdown



A Bennelong boutique

Portfolio performance review

The 4D Emerging Market Infrastructure Fund was down a net 2.10% (AUD) in July, under-performing the benchmark return of 1.67% (by 3.77%). Currency detracted 124bps from performance in July.

The strongest performer for July was Brazilian rail operator Rumo up 9.8% on a positive near term crop outlook, improved longer term soft commodity opportunities via export agreements to China and the announced sale of 2 port terminals – a strategically and financially attractive deal.

The weakest performer in July was Chinese airport operator BCIA down 13.6% as China remains wedded to its COVID zero policy with further city lockdowns and no re-opening in sight. However, the reduction in certain quarantine requirements is seen as a positive.

The market has been incredibly volatile on inflation/interest rate concerns as central banks around the world raise rates in an effort to bring inflation to a more reasonable level. The current 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. We believe it is a sensible portfolio allocation at the current stage of the economic cycle and we believe the current weakness is a buying opportunity for the asset class.

Month in review

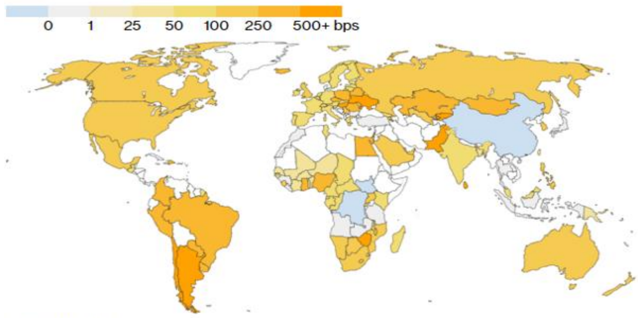
July saw ongoing inflation and macro growth concerns. The IMF cut its global growth outlook for this year and next, warning that the world economy may soon be on the cusp of an outright recession. Global economic expansion will likely slow to 3.2% this year, less than the 3.6% forecast by the fund in April. The series of interest rate increases that central banks have unleashed to contain inflation *'is expected to bite'* in 2023 the IMF said. Despite slowing activity, global inflation has been revised up by the IMF, in part due to rising food and energy prices. Inflation this year is anticipated to reach 6.6% in advanced economies and 9.5% in emerging market and developing economies.

The US economy shrank for a second straight quarter with high inflation undercutting consumer spending and Federal Reserve interest-rate hikes putting the brakes on businesses and housing. US GDP fell at a 0.9% annualized rate after a 1.6% decline in the first 3 months of the year. But this may not signal a recession according to the US National Bureau of Economic Research which rejects the notion that two quarterly contractions in GDP is conclusive of a recession. In addition, a strong government report for July has pegged the US jobless rate at 3.5% reports Bloomberg. The last time unemployment was this low the Apollo moon landings were still in full swing. Employers added more than double the number of jobs forecast, illustrating rock-solid labor demand. Wage growth accelerated, too, which will likely prod the Federal Reserve to keep going with aggressive rate hikes. President Joe Biden commented that: *'More people are working than at any point in American history'* he said.

The US Federal Reserve raised interest rates by 0.75% in July. Chair Jerome Powell said a similar move was possible again, rejecting speculation that the US economy is in recession. The ECB raised its key interest rate by 0.5%, the first increase in 11 years and the biggest since 2000 as it confronts surging inflation even as recession risks mount. This rate move aligns the ECB with a global push to tighten, ending an 8-year experiment with subzero borrowing costs.

ECB Joins Global Rate-Hike Club With Half-Point Increase

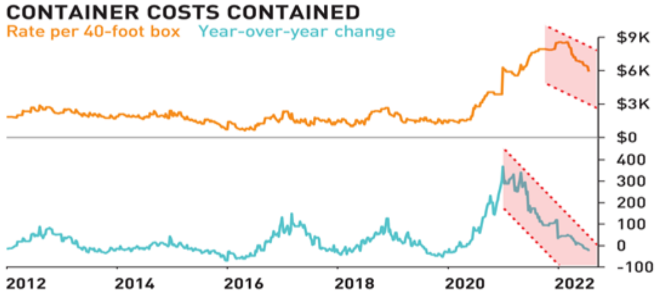
Change in interest rates since the start of 2022



Source: Bloomberg
Note: Mapped data show change in interest rates in basis points for distinct central banks since the start of the year.

However, signs of global inflation peaking may also be emerging. Shipping costs, which had surged amid virus-fuelled bottlenecks and a shortage of containers, are slowly coming down to pre-pandemic levels. The *Drewry Hong Kong-Los Angeles benchmark* for 40-foot container rates dropped 5.7% in the week ended July 20 and was down 21% from the same period last year. Port congestion in Southern California lessened, and rates should continue to moderate according to Bloomberg Intelligence.

CONTAINER COSTS CONTAINED



Source: Drewry Shipping Consultants, Bloomberg Intelligence
Bloomberg

Finally, the US$ is currently trading at close to its highest level in around two decades, with the currency close to parity with the euro and the trade-weighted US$ index up over 10% so far this year. Aggressive monetary tightening by the US Fed has been an important factor behind the appreciation. Safe-haven demand—due to the Russia-Ukraine war, China's Covid lockdowns and fears of a global slowdown—have also boosted the dollar. Multi-year high energy prices have played a further role, given the US' position as a net energy exporter. The strong dollar is likely to be welcomed in the US, as it will aid the Fed in fighting inflation. However, for other countries the opposite is true. Given that the US is an important trading partner to many countries—and more importantly that international commodities are priced in US$—the stronger dollar leads to higher imported inflation in the rest of the world. This may force foreign central banks into unwanted monetary tightening, weighing on growth.

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]	0.9794/0.9754
Distribution frequency	Annually
Management fee[4]	1.15% 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 fee is 1.15% p.a. (including GST net of reduced input tax credits) of the Net Asset Value of the Fund.

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.