



Trip  
Insights

# Latin America

September 2025

This is the 20<sup>th</sup> edition in our series of *Trip Insights*, where we share our travel experiences and investment decisions. This edition covers a comprehensive trip taken by Sarah Shaw, Global Portfolio Manager, to Latin America in August 2025. Sarah visited sites across a number of airports and infrastructure assets, meeting with management teams from regulated utilities and transport companies, as well as gathering insights from political and economic experts within Mexico and Brazil. Company management meetings and site visits are integral to our investment process, and where possible, we look to visit core regions at least annually.

This trip provided invaluable insight into the evolving regional and global geopolitical and economic concerns and their impact on what we would consider an otherwise very positive fundamental outlook for the region’s infrastructure operators. As always, the comparison of outlooks from our external lens with the mood on the ground from locals and experts alike, shaped our thinking on the region as a whole. It reinforced our both positive and negative views on certain regions, sectors and companies, highlighting some new and interesting opportunities and changing our thinking on some names.

This piece outlines the key themes and our takeaways from the trip, and how these have shifted our positioning across the region.

We would normally look to incorporate photos from the trip but unfortunately Sarah had her phone stolen (out of her hand) while in Brazil which means this Trip Insight is visually light. However, a timely reminder for Sarah and any reader to keep phones out of sight when in unknown locations.

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## Trip agenda

Investor meetings included the following companies / brokers:

Company	Sector/topic	Location
GAP	Airports	Guadalajara
ASUR	Airports	Mexico City
Itau	Infrastructure	Mexico City
Itau	Politics/economics	Mexico City
Santander	Infrastructure	Mexico City
Airport site visits	Guadalajara, Mexico City, Sao Paulo	
Santander Macro Day	Brazilian macro/strategy	Sao Paulo
Santander Brazilian Conference	All sectors	Sao Paulo
Ecorodovias	Toll roads	Sao Paulo
Motiva	Transport	Sao Paulo
Copel	Utilities	Sao Paulo
CPFL Energia	Utilities	Sao Paulo
ISA Cteep	Utilities	Sao Paulo
Neoenergia	Utilities	Sao Paulo
Eletrobras	Utilities	Sao Paulo
Equatorial Energia	Utilities	Sao Paulo
TAESA	Utilities	Sao Paulo
Rumo	Rail	Sao Paulo
Engie Brasil	Utilities	Sao Paulo
Alupar	Utilities	Sao Paulo
Energisa	Utilities	Sao Paulo
Itau	Politics/economics	Sao Paulo
Itau	Utilities	Sao Paulo
Itau	Infrastructure	Sao Paulo
GAP	Airports	Guadalajara
ASUR	Airports	Mexico City
Itau	Infrastructure	Mexico City

## Politics

The domestic and global political landscape remains the single biggest catalyst (positive/negative) for the LatAm region over the next 12 months. From Trump tariffs and immigration policies to domestic policy execution and potential election outcomes, there is a lot going on, and all with important ramifications for the region, countries, equity markets and infrastructure fundamentals.

In summary, the political mood across the region was surprisingly positive.

### Mexico – Sheinbaum doing a good job

We returned from our 2024 trip with concerns about the June ‘super majority’ election win for the ruling Morena party candidate, Claudia Sheinbaum. These concerns included:

- Sheinbaum’s credentials were untested and her independence from AMLO was unclear – was she just going to be an AMLO ‘puppet’?
- Electoral reform and its impact on the sanctity of the judicial system.
- Fiscal discipline and Sheinbaum’s ability to improve the budget in a deteriorating economic environment.
- US relations given an expected (at the time) Trump win.

Twelve months on and the consensus view is that she is “doing a good job” and Mexico has avoided a “worst case scenario”. Her support from the populous remains at all-time highs with an ~80% approval rating – higher than AMLO ever achieved. However, her support within the party has deteriorated with the expectation that she may lose the ‘super majority’ at the 2027 midterms. While we expect the market would approve of this, it does create challenges around execution of public policy.

Now, post the 2025 trip, the core areas of concern in 2024 – many of which are interconnected – have been reassessed:

- **Execution and AMLO independence** – While Sheinbaum pushed forward with the electoral reform instigated by AMLO, this was widely expected as a ‘parting gift’. Since then, she has maintained Morena philosophies but proven to be independent and very balanced in managing the economy, budgets, international relations and social policy expectations. A good example is the minimum wage which increased exponentially under AMLO. While Sheinbaum continues to target long term improvement she is being far more measured in the annual increase and the trajectory to target. This is helpful for government budgets and economic pressures while still supporting 20% of the population reliant thereon.
- **Electoral reform** – Done and dusted with little market reaction. The Judicial vote proved to be very complicated with less than 10% of the population participating. As expected, there were a lot of ‘Morena winners’. While it remains untested, it appears the imminent threat has passed and the risk has been priced in. We remain cautious on the judicial situation until signs that it is working. However, noise around it has disappeared for the minute.
- **Fiscal discipline and economic outlook** – A strong tick for Sheinbaum given the current global environment. It is widely expected that Mexico will now avoid a recession. The budget is far from robust but her measured response to social policies (as per above) as well as a boost to fiscal coffers from increased taxation on Chinese imports has seen an improvement in the fiscal position without the need for very unpopular fiscal or social reform. There is work still to be done on social policies (labour reforms in particular) which will compete with budgets – but so far so good.
- **US relations** – This was one of the most surprising takeaways from this year’s trip. The view is that Sheinbaum and Trump have a strong and cohesive relationship which is working in favour for both countries. Of note:
  - Sheinbaum increased taxes on Chinese imports – appeasing Trump and improving public finances

- Immigration – a short term shock but positive for Mexico’s near-shoring rhetoric as the supply of cheap labour increases
- Fentanyl – high profile target for both countries
- Near shoring story is reinvigorated
- Tariffs – the consensus view is that the USMCA Trade Agreement will be resolved in a manner supportive to both Mexico and USA – on the ground no-one felt there was a real risk to the Agreement dissolving or being less advantageous to either party.

On balance we left Mexico this year more positive on the political landscape, but cognisant that risks still remain:

- The economic outlook remains muted and sensitive to US relations.
- Judicial reform remains untested.
- Balancing labour shortages (services side) with labour reforms and minimum wage improvements.
- Energy reform – Sheinbaum is trying, but not doing enough, to encourage much needed sector investment. There is a need to restore foreign investor confidence to attract much needed capital. This remains a longer term infrastructure and sovereign opportunity.

## Brazil

The 2026 Presidential election was the core topic of conversation. With 15 months to go, the outcome remains anyone’s and a Lula re-election cannot be ruled out. However, the consensus view was that a shift in government to the right was likely. If this proves to be true it would be positive for Brazil’s economic outlook, infrastructure fundamentals and market performance in 2026 and moving forward.

We touch on the perceived most likely scenarios and dates to watch below – but a couple of comments first:

- Lula’s popularity has declined significantly and polls would suggest he shouldn’t win. Keep in mind that Lula won the 2022 election by the tightest margin in Brazilian history, just 1.8%, and since then his popularity has deteriorated substantially. If he does win in 2026 it would be considered an opposition loss, not a Lula victory.
- At the time of the trip Jair Bolsonaro (president from 2019-2023) was under house arrest awaiting a verdict in the ‘coup trial’ which prompted Trump’s ‘tariff letter’. If convicted (*see below re subsequent guilty verdict*), he will be ineligible to run. However, he can still put his name on the ballot along with a running mate and pull out closer to the election, letting his running mate move forward. Alternatively, if he was acquitted he was expected to appeal the 2030 ban on holding office and run in some form next year.
- Bolsonaro’s ‘family’ – should Jair not be able to run, there is some suggestion he will support one of his sons or wife in a presidential campaign. Many believe any ‘Bolsonaro’ is not a good option for presidential success as:
  - his wife is not interested and Bolsonaro would struggle to support his wife;
  - his first son Flavio, a politician in own right (in Rio de Janeiro) has been accused of having ties to death squads and corruption – yet is considered the most likely (but poor) candidate;
  - his second son Carlos is not politically relevant and won’t run – “he is crazy and can’t be president”;
  - his third son Eduardo was the most likely candidate but polarised the populous by working with the US on commercial sanctions on Brazil in an effort to free his father – little chance of running/success as a result; and
  - Brazilian industry in general is also anti the Bolsonaro brand (Jair or family) due to tariff implications – particularly the agricultural industry which is significant in Brazil.



- Bolsonaro 'support' – if Bolsonaro can't run, he can throw his support behind an alternative non-family party candidate. This is the favoured option with the most likely chance of success. The likely alternatives in order of presidential popularity are:
  - Tarcisio de Freitas – current governor of Sao Paulo and was the Minister of Infrastructure under Bolsonaro. Very loyal to Bolsonaro and unlikely to run without his support. Also unlikely to announce his candidacy before April – there is no benefit to announcing early as he immediately becomes a political target for Lula's team. Widely believed that Bolsonaro will ultimately support Tarcisio's candidacy which could see a strong win.
  - Carlos Roberto Massa Júnior – current governor of the state of Paraná, having won the 2018 election. Most likely candidate if Tarcisio doesn't run. He is also very popular and connects well with the poor and is expected to win if he runs.
  - Romeu Zema – current governor of Minas Gerais. He's a businessman by background and a champion of privatisations.
  - Ronaldo Caiado – current governor of Goias (since 2019); is a long term politician having run for the 1989 presidential election. Good, but not as charismatic.
  - Importantly, there appears to be cohesion within the party to support the candidate most likely able to succeed and realise a change in government and shift in economic direction.

#### Likely outcomes:

- Third Party vs Lula – best case scenario and a pretty confident victory for the right is anticipated should this occur, particularly with Tarcisio or Carlos on the ballot – would be very positive for the country and markets. Also the best case scenario for a convicted Jair as it would be his best chance of a pardon. *Given the recent conviction (see below) with a > 27 year jail term attached we increasingly feel he must do everything to support this outcome.*
- Jair Bolsonaro vs Lula – a very tight contest and anyone's win – likely to come down to the success of the relative campaigns. They each have their core dedicated base so will be determined on who can swing the campaign in a second round run off. *Would require a successful appeal and overturning of any ban on holding office – increasingly difficult given first round conviction.*
- 'Bolsonaro family' vs Lula – the scenario we don't want to see as has the most likely chance of a Lula re-election as Lula has much more dedicated support and more campaign know-how. Many feel Jair will support an external candidate over family should he be convicted as he has no chance of a pardon under Lula.

#### Important dates to watch:

- September 25 – outcome of Bolsonaro's trial – an acquittal would see a Bolsonaro vs Lula contest. A conviction opens the door to support for a Bolsonaro family member or third party – very unclear on when he would declare either support as he wants to remain relevant as long as possible.  
  
*On 12<sup>th</sup> September, Bolsonaro was convicted by a 4:1 majority and was sentenced to over 27 years in prison. While he plans to appeal the decision to the full 11 member Supreme Court, it reduces the likelihood of him personally running in 2026. Also, on appeal, of the additional six member Court, Bolsonaro must gain support of five out of the six to be successful. By contrast only need two out of six to support a guilty verdict for the appeal to fail – so the odds are not in his favour. Also, time is running out to win an appeal, over turn a ban and mount an election campaign.*
- April 26 – if Tarcisio is considering running he must declare his intentions in April by resigning as governor of Sao Paulo. If he does not do this he cannot run and likely candidacy then falls to Carlos.
- 4<sup>th</sup> October 26 – First round vote.
- 25<sup>th</sup> October 26 – Runoff election.

While many are positive that there will be a strong outcome for Brazil in October next year there are still a number of balls in the air and following the recent conviction we think crucial dates to watch are the appeal and April 26.

A quick comment on the Bolsonaro Coup trial given its high relevance to the above outcomes.

Former President Jair Bolsonaro was convicted in Brazil's Supreme Court for allegedly orchestrating a coup attempt to remain in power after his defeat in the 2022 presidential election. The charges include attempting to stage a coup, leading an armed criminal organisation, violent abolition of democratic rule, and destruction of state property. Prosecutors presented evidence such as documents, digital communications, and witness testimony suggesting Bolsonaro and his allies planned to annul the election results, incite a riot on January 8 2023, and even discussed assassinating President Luiz Inácio Lula da Silva and Justice Alexandre de Moraes. Bolsonaro, who is under house arrest, denies the allegations and claims the trial is politically motivated.

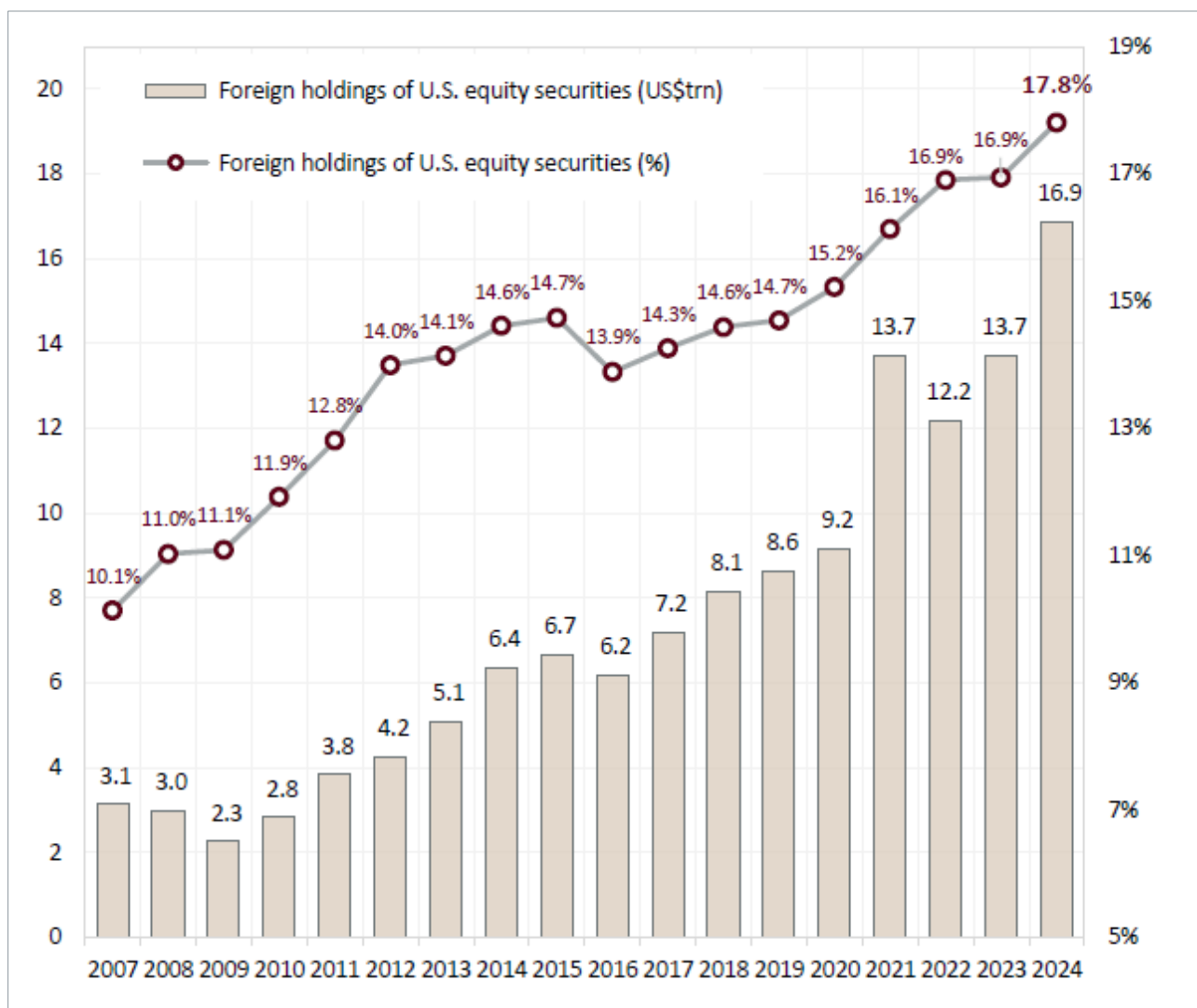
Critics of Brazil's Supreme Court argue it has overstepped its constitutional role in the Bolsonaro coup case by assuming powers traditionally reserved for the legislative and executive branches. Justice Alexandre de Moraes, who is overseeing the trial, has been accused of judicial activism and authoritarian behaviour, including ordering raids, blocking social media accounts, and detaining individuals without trial. The court's use of 'monocratic' decisions—where a single judge can issue rulings with sweeping consequences—has raised alarms about the erosion of checks and balances. Moraes has also been criticized for allegedly acting as both judge and victim in the case, particularly since Bolsonaro's alleged coup plan included his arrest, which some legal experts say should disqualify Moraes from presiding over the trial.

In summary, there does appear to be a case to answer, but it also does appear that Moraes has over-stepped his role in both being party to the prosecution and presiding over the case bringing the sanctity of an otherwise robust judicial system into question.

## US

Immigration, tariffs, currency and US exceptionalism were all under discussion. In summary:

- Mexico is experiencing a short term shock from US immigration policies, but with expected long term upside from improved domestic labour supply.
- Mexico appears resilient to tariffs at present with unanimous views that a positive USMCA Trade Agreement outcome would be achieved. By contrast in Brazil, tariff discussions were being used as a political football, swinging support for the upcoming presidential election. Commentary wasn't really about economic implications, but rather how it could/would swing the upcoming election.
- A weaker USD has historically been supportive of emerging markets and expectation was that this time would be no different with a weaker USD being a regional tailwind.
- While US exceptionalism is not over, year to date the reallocation of capital away from the US to other markets has definitely started. Given the numbers involved, should it continue, the destinations of capital become increasingly important and represent a regional/global tailwind.
  - According to the US Department of the Treasury, as at the end of 2024, foreign investors held 17.8% of US equity securities— equivalent to approximately US\$16.8 trillion of the total market capitalisation of US equities (US\$94 trillion). Sensitivity analysis suggests that every 100bps of reallocation from US equities equates to roughly US\$950 billion in potential international diversification flows.
  - Further, should we see US domestic investors look further afield, this flow of capital gets significantly greater.



Source: Santander Research, US Treasury Department

## Argentina

While we have yet to upgrade Argentina from red (uninvestible), we note that it was widely believed current President and far-right economist Javier Milei is doing a good job and that opportunities in Argentina will be significant if he continues on the current trajectory. For now, it remains a 'watch and wait', but we're increasingly hopeful that Argentina's time could be coming. This optimism was slightly derailed in the recent regional elections where Milei lost traction, adding to the watch and wait approach.



## Economics

While economics and politics are interlinked, and the macro environment is always important, the focus of this trip was definitely on political influences ahead of the macro environment itself.

### Mexico

Mexico's economic outlook for 2025 is cautiously optimistic but tempered by significant structural and geopolitical challenges. It is believed that Sheinbaum has done enough to avoid a recession, with GDP growth expectations for the FY of ~0.5% and inflation stabilising.

Moving forward, the big swing factors remain structural, both positively and negatively, including:

- USMCA negotiations and implications for the domestic economy of the outcome – on balance expectations are for a positive outcome for Mexico.
- Ability to balance fiscal position without social reform – done well so far, supported by increased taxes on China, but this can only go so far without other reforms. Probably not a 2026 story though.
- Public investment is expected to decline due to fiscal consolidation, and private consumption is slowing amid weaker job creation – this needs to be addressed.
- FX moves – this is particularly relevant for our airport exposure as international passengers are priced in USD boosting reported earnings. International assets are also highly correlated to the USD and a strong USD encourages increased inbound tourism to Mexico.
- The country is well-positioned to benefit from global supply chain reconfiguration, particularly in high-tech sectors like semiconductors, software, and medical tourism. Initiatives like 'Plan México', which aim to elevate the country into the world's top ten economies by 2030, underscore the ambition to leverage near-shoring and regional integration. However, realising these opportunities will require regulatory clarity, infrastructure investment, and a stable political environment to attract and retain foreign capital.

### Brazil

GDP growth remains relatively robust, albeit slowing, having surprised to the upside over the last 24 months while high SELIC rates appear to be stabilising inflation, which is heading towards range.

Brazil is another economy with both risk and opportunity over the next 12-24 months, significantly intertwined with the political outlook.

The biggest risks to Brazil's economy in 2025 and into 2026 stem from both domestic and global factors:

- Domestically, fiscal imbalances—such as a deficit nearing 8% of GDP and debt at 78% of GDP—are eroding investor confidence.
- Globally, Brazil remains vulnerable to US trade tensions, and commodity price volatility.
- Political uncertainty ahead of the 2026 elections adds another layer of risk, potentially influencing economic policy decisions.
- The unemployment rate continues to decline with indications of a very tight labour market and no available contingency which could prove to be inflationary.

Despite these challenges, Brazil has several opportunities:

- The EU-Mercosur trade agreement, expected to begin implementation by the end of 2025, could boost investment and GDP by enhancing Brazil's integration into global value chains.
- Brazil's agricultural sector remains resilient and could benefit from shifts in global food security priorities. This will amplify if Mexico's institutional instability continues.

- A political shift to the right next year would be well received by markets, with commitments to address fiscal reform as a priority.

#### Interest rates – market trigger:

In July we finally saw some stabilisation of the SELIC rate with the Central Bank holding it at 15%. This marked the end of a 450bp tightening cycle that began in September last year. While the pause pleased markets, the Central bank was clear that they would resume hikes if needed and signalled that policy will remain “significantly contractionary for a very prolonged period”.

While the high headline SELIC rate in Brazil is well known and we believe well priced in, of more concern is the relatively high real rate, which at ~8% is well above historical levels. This is a function of Brazil’s low domestic savings rate at below 15%. This low rate is driven by several factors, including a large informal labour market, a lack of long-term savings instruments accessible to the broader population, high consumption levels and a generous social transfer system all reducing household incentives to save. While savings rates have always been relatively low, Lula’s social policies have exacerbated the situation leading to some of the highest real rates in decades.

Should we see a shift in government next year, with associated social and fiscal reform, the market is very positive of a shift to a real rate environment in the 3-5% range – this would also be a game changer for markets. By contrast, a failure to address these reforms will see Brazil live with structurally high real rates and ultimately higher than necessary nominal rates.

## Infrastructure – a summary

While much is happening across the Latin American infrastructure landscape, this trip highlighted and reinforced some strong thematic, including:

- **Mexican airports:** Structural long term traffic demand remains attractive despite near term pressures from ongoing P&W recall, Trump policies and Mexico City slot limitations. Each of the operators have their own drivers of value and we continue to position to capitalise on GAP’s long term structural growth, ASUR’s near term commercial spend upside and international diversification and OMA’s yield opportunity.
- **Brazilian transport:** Existing fundamentals and future growth remain very attractive. With significant country and company catalysts, which we believe are on balance positive for valuations and equity market performance, we remain overweight the Brazilian transport names.
- **Brazilian rail:** We are increasingly worried about structural headwinds for Rumo as record crop levels do not translate into contracting, volumes and yields. We believe there is better risk/reward elsewhere until they address competitive dynamics.
- **Brazilian electricity:** As with elsewhere in the world, the network investment need is significant and we believe one of the best ways to capitalise on the emerging middle class, energy transition and technology thematic is by way of much needed transmission and distribution investment under a supportive regulatory model. We remain positive on both sub sectors where strong management teams are executing on plans. By contrast, we are increasingly negative on the structural issues within an over supplied renewable market, seeing us avoid generation investment, with the exception of hydro.
- **Brazilian water & sanitation:** A huge growth opportunity with core players capitalising and executing well in a regulatory environment rewarding execution. Any weakness on tariff discussion would be a buying opportunity.
- **Management strength:** A key takeaway from this trip was the relative strength of various management teams – those capitalising on the opportunities afforded to them while cognisant of investor concerns/demands including leverage and shareholder returns.

We touch on each of these below, as well as wrap up a few other sector dynamics.

## Mexican airports

The long term fundamentals for the Mexican airport sector remain robust, however near-term traffic headwinds have dampened the 2025 earnings outlook.

### Traffic

The 2025 traffic outlook remains below structural demand trends. This is as a result of three key themes:

- The Pratt & Whitney engine recall is taking longer than expected to resolve, with Volaris still having 36 planes grounded and now forecasting that the issue won't be fully resolved until 2027. While YoY traffic momentum is positive the strong anticipated rebound will be slower than expected.
- US-Mexico relations have been an overhang on both tourism and VFR (Visiting Friends and Relatives) traffic. The former has had an impact on ASUR's Cancun traffic while the latter has had an impact on GAP's operations - with 38% of their traffic being VFR, Trump's stance on immigration has hurt YTD traffic numbers. Positively, airlines have not cut seats between Mexico and the US, with expectations that these will be short term impacts.
- Mexico City slot limitations continue to weigh – increased slots from 43 to just 44 (from historical 62) with no expectation of further upside. This could on balance prove positive for GAP and OMA as Guadalajara and Monterrey take share, but this will take time.

The airport operators are more optimistic into 2026 as fear dissipates, P&W planes gradually return to the air, the 2026 Football World Cup offers a short term summer boost, some potential benefit from tourism looking for an alternative to the US (Canada, Europe and Asia all adding direct flights to Mexico) and GAP and OMA benefit from offering alternate hub connectivity. Importantly, longer term the outlook remains very robust with structural demand growth, new plane arrivals, full resolution of P&W, resurgence of near-shoring investment post USMCA Agreement, increased international routing to Mexico all expected to see traffic CAGR well above GDP growth. This growth supports the significant investment pipelines currently being executed.

### Mexican expansion

Under very attractive MDPs (Master Development Plans) ASUR and GAP continue to execute on robust expansion plans at core airports which will support longer term passenger growth and importantly incremental commercial spend.

ASUR is expected to realise strong upside in H2 2026 on the opening of the new Terminal 1 in Cancun, relieving significant congestion at T2. GAP is also executing on new terminal builds in core airports of Guadalajara, Tijuana, Port Vallarta and Las Cabos which will realise passenger and spend benefits over the coming years.

By contrast, OMA is currently negotiating its MDP. While we expect a solid outcome, we think the upside is already priced in following a strong run YTD. They don't have the capex opportunity of GAP or ASUR so realising the same level of upside is not possible.

### M&A

With very strong balance sheets and already attractive return profiles, the operators have individual approaches to M&A:

- ASUR recently entered the US market with a bundled terminal acquisition (nine terminals in total). While very few numbers have been provided, we know this is a low margin business and we got the impression that rather than being a value accretive win, this deal was to provide ASUR with a platform for future US growth.
- GAP continues to explore incremental cargo opportunities post their very successful GWTC acquisition last year, supported by the positioning of their airport network in areas able to capitalise on the cargo/near-shoring opportunity.

- Interestingly, both GAP and ASUR are supposedly in the due diligence process for Motiva's airport portfolio. We would be surprised to see either of them aggressive on this bid – ASUR because of their recent US acquisition and GAP because its parent AENA is also supposedly undertaking DD and they already have a Brazilian base.
- OMA not targeting M&A and with a lower capex opportunity we see it morphing into a cash cow and yield play to support its parent (Vinci's) more diversified M&A pipeline.

## Positioning

We remain positive on the Mexican airport sector as a strong way to capitalise on improving Mexican and air traffic fundamentals, with each of the operators offering different dynamics.

- GAP – best long term growth story with strong expansion and traffic/commercial upside at their core airports. Near term though have VFR headwinds.
- ASUR – most visible catalysts from opening of T1 in Cancun next year with near term traffic weakness from Tulum and sargassum issues more than priced in. Offering best value at these levels and increased position.
- OMA – has the catalyst of the MDP but we think upside has now been priced in and taking some profits ahead thereof. Morphing into an attractive cash cow.

## Brazilian user pays

We managed to explore the opportunity set across the Brazilian transport space and came away strengthened in our conviction of the fundamental opportunity in the sector, but with certain sub sectors offering much better risk/return.

## Rail

Rumo's share price has suffered a lot this year despite a record crop season. We were concerned leading into the trip and unfortunately our discussions in Brazil did not ease this concern but rather have us questioning Rumo's structural model and our exposure thereto.

Rumo's short term volume growth is and always has been influenced by Brazil's volatile agribusiness cycles. Weather disruptions, crop variability, and global commodity demand influence transported volumes. This is known and reflected in short term forecasts. However, despite short term volatility, the long term volume trajectory had been very buoyant fuelled by expanded crop plantings and thematics around global food security. Disappointingly this year, expectations and realisations of a record crop season have not translated into rail volumes nor farmer contracting activity which is concerning. Is there a structural shift in the agricultural export market? Corn, a key commodity for Rumo's freight business, is currently facing declining export demand due to China and Europe increasingly sourcing from the US, while domestic consumption in Brazil is rising. While soybean exports remain relatively resilient, the broader freight landscape for Rumo is increasingly uncertain, and Rumo must adapt to these evolving market conditions.

Further, weaker volumes have reduced Rumo's ability to raise tariffs, with freight pricing risks more persistent than previously expected. The company is now guiding to yield compression in 2025 and 2026 to be flat, which is a worrying trend.

Longer term, despite revisions downwards, Rumo's value proposition still stacks up, and the stock looks oversold. However, the outlook is not as attractive as once thought – the structural issues above coupled with the risk of rising capex, increased regulatory compliance costs, and competition from road freight eroding margins and returns see us reduce positions with better risk/return opportunities in the road sector.

## Roads & urban transport

Strong meetings in Brazil with both Motiva (former CCR) and Ecorodovias, which reinforced our positioning in the names. The focus of meetings was on:

- organic growth and ongoing execution of operational efficiencies – positive;
- improved realisation of existing capex programs – positive;
- future growth opportunities – rebalances the focus;
- balancing leverage with growth and how to fund future growth – managing timing of growth, asset sales, leverage levels and potential equity raises; and
- catalysts – both positive and negative.

## Organic Growth

Both companies are realising strong traffic momentum linked to the buoyant economy with toll upside from inflation. However, the big organic theme is margins with both operators executing on an efficiency program which is/should realise strong margin upside over the coming decade.

- Motiva's opex/net revenue targets of 38% by 2026 and <35% by 2035 are to be improved. They will anticipate the 38% in 2025 and at their investor day we believe they will announce increasingly ambitious efficiency targets of <30% by 2035 supported by the airport sale and technological improvements.
- Ecorodovias also sees strong margin enhancement of around ten percentage points to 85% by 2030. This is being driven by capex execution and associated toll jumps, traffic growth above GDP growth, opex growth below inflation, technology enhancements including 'weight in motion' implementation and improved free flow. The company does not see risk to these targets stating that it "is more than achievable".

## Existing growth

Both companies are executing well on significant capex plans on recently won projects.

- Motiva's capex execution has improved to 93-95% of budgets in recent years and YTD is tracking at 97%. Importantly they are delivering in budget and with the backlog largely contracted, risk has been mitigated, and they are very confident of delivery.
- Ecorodovias commented that the outlook for all their new assets is "better than expected at bid". By contrast to Motiva however, there have been some delays to capex deployment due to licensing delays and only expecting to realise 80-85% of budget this year. However, no issues re execution itself with all investment now under way and expected to peak in terms of capex deployment in 2029/30.

## Future opportunities

Significant opportunity remains for future growth with a strong pipeline of new assets coming to the market as well as ongoing rebalancing potential of existing assets. Both operators are prioritising rebalances due to the strong knowledge and incremental upside offered from existing assets.

Competition has increased for new assets with financial investors becoming aggressive and new operators (eg Vinci) entering the market. The incumbents remain cautious on new bids and have reiterated double digit return benchmarks within bid proposals. However, they did note that the good auctions are coming now, not later, and they want to be in a position to capitalise on them – even if that means they need to tap the market for equity (see below).

- **Motiva**
  - Significant capex opportunity via rebalances of two metro assets as well as two assets within their road network. The quantum of opportunity is significant at R\$15-20bn, and with returns above new auction returns these opportunities remain a priority.
  - New auction focus on Parana in October and repackaged roads from Ateris (quality poor but capex opportunity huge). Targeting a maximum of two wins over the next 12 months.
- **Ecorodovias**
  - Rebalancing is also the focus with a significant opportunity under discussion for their core Immigrantes concession – their number one priority given attractiveness of risk/return proposition.
  - Looking at new auctions but very selective and only where synergies exist or it improves their existing operations and/or competitiveness.
  - Interestingly, Ecorodovias believe the higher current interest rate environment is good for new bids as they realise a higher IRR over the project and competition is lower.

### Balance sheets

Both parties are cognisant of their elevated leverage levels and market concerns around this. However, both parties are confident on execution and remaining within covenant levels. They are also exploring alternative funding sources should they be able to capitalise on the above growth opportunities.

- Motiva have linked their dividend payout to leverage as they balance growth and shareholder returns. We are supportive of this strategy. They have also committed to keep leverage below 4x net debt/EBITDA and we are comfortable with this. Alternative sources of funding include asset recycling (airports, metro stake, non-core roads), receipt of compensation (eg Barcas, Metro Bahia) and, should the realised opportunity be significant, would look at an equity raise (but not before 2027 when the capital would be needed for new capex).
- Ecorodovias will take leverage higher to around 4.5x as they execute their existing growth pipeline. However, absent new wins they expect to remain below (but close) to 4.75x covenant. Should new growth arise they would look at an equity raise to facilitate the opportunity.

### Catalysts

While the economic and political dynamic are the biggest catalysts over the coming 12 months, both operators have their own individual catalysts.

- **Motiva**
  - Positively – could agree/realise upwards of R\$2bn in compensation this year from the true up on Sao Paulo roads, Barcas and Metro Bahia while concession extensions are also on the table re COVID rebalances.
  - Positively – amendments in final stages of negotiation with expected announcements over the next 6-12 months.
  - Positively – expected to announce the disposal of their airport portfolio at the back end of Q3 with 4-5 parties currently undertaking due diligence ahead of final bids. While some risk exists that bids are not attractive, the company has stated that they won't sell if not accretive. On balance we expect a deal will be realised.



- Positively – execution on the revamped MSVia contract – has become a very low risk highly accretive project post renegotiation.
- Positively – Investor Day target upgrades at an organic level.
- Overhang – biggest overhang remains their shareholder base with one of the four key shareholders looking to exit (financial distress) – this is a risk until resolved but we wouldn't rule out it ultimately being positive if someone like Vinci enters the mix.
- Ecorodovias
  - Positively – on return of the Ecoporto asset (timing unclear), Ecorodovias to receive R\$300mn in compensation over two years.
  - Positively – realisation of ~130% toll increase over five years on the Eco101 amendment.
  - Positively – delivery on margin expansion at ~200bps per annum in line with strategy.
  - Positively – potential significant rebalance to be announced over next 12 months.
  - Unknown – increased data points on new roads – to date been positive but need more data points.

## Brazilian utilities

We explored all four segments of the Brazilian utility sector and in summary:

- Electricity generation remains a sector structurally broken as a result of the over supply of renewables and the Distributed Generation (DG) model. Without regulatory reform we see renewable bankruptcies and a sector in trouble – negative on sector.
- Electricity transmission remains stable and predictable with significant investment needed. However, as competition in the sub-sector remains intense players have to be opportunistic for new assets – positive on sector.
- Electricity distribution looks increasingly attractive as operators capitalise on concession renewals, improved demand drivers and new regulatory parameters – positive on sector.
- Water remains the growth sector of the utility space with core players executing well on strong investment pipelines while looking to capitalise on new asset auctions into 2026 – positive on sector.

### Electricity generation – much needed structural reform

Brazil has one of the cleanest electricity sectors globally with the system dominated by hydro, supported by strong renewable resource and backed up by nuclear and fossil fuels as needed. However, the rapid growth in renewable resources both at the system and DG level have resulted in:

- an over supply of renewable resource; and
- a transmission and distribution network that cannot support the influx of renewables into the generation mix.

As a result, there has been significant and growing renewable 'curtailment' which is creating structural issues for the sector and putting the financial viability of generators at risk. This trip saw significant focus on the problems and what needs to happen to resolve it. The regulators and planners are cognisant of the issue and have identified three levels of curtailment requiring a different response.

1. **Electric** curtailment, which occurs when transmission infrastructure outside the generation complex fails due to events like storms, fires, or maintenance issues. This type of curtailment is eligible for financial compensation if it exceeds a minimum threshold of hours per year (~35 hours for wind and 70 hours for solar).

2. **Reliability** curtailment, where the transmission lines reach their maximum capacity, forcing the grid operator (ONS) to limit generation to maintain system stability. This is also related to infrastructure limitations but typically does not qualify for compensation. This type of curtailment will dissipate with increased investment in network infrastructure.
3. The most frequent level is **Energy** curtailment, which happens when there is insufficient demand to absorb the available generation—especially common in Brazil's Northeast, where renewable capacity has grown faster than consumption. This type is considered a market risk and does not entitle generators to reimbursement, making it a major financial concern for energy producers – this is the level that has been exacerbated by the growth of DG.

In summary there are two key areas of investment and reform needed:

1. As with everywhere else in the world significant investment is needed in both the transmission and distribution networks to support renewable source – supported by regulators but will take time.
2. Structural reform of the DG model to ensure stability of the system and reduce over supply. This is a work in progress but not looking like change is imminent and may not be soon enough to prevent financial distress and collapse of renewable energy operators. Industry players had many thoughts on what could trigger the reform, from grid collapse to blackouts to bankruptcies, with some operators looking (hoping) for reform as early as year end, while others expect it to take a lot longer.

For these reasons we are not investors in those operators with significant renewable generation exposure, whether pure play or as part of the integrated model. We continue to favour hydro exposure within an integrated mix but are not supportive of additional wind or solar investment at this stage. Importantly, the operators themselves are aligned with our view and not investing further in these segments and a number flagged they would sell but cannot until the 'curtailment' issue is resolved. For the pure plays like Engie, the sector sentiment and fundamental impacts on earnings will remain a headwind for the foreseeable future.

As an aside, despite the short term issues, many in the market think the long term power price in Brazil will be higher than the market is currently forecasting, which supports the hydro exposure (which we continue to like) including the renewal of large hydro plants coming to the market over the coming years.

### Distributed Generation – a summary

Brazil's DG model allows consumers—ranging from households to businesses—to produce their own electricity from renewable sources like solar, wind, and biomass. This decentralized approach has grown rapidly, with over 43 GW of installed capacity at the moment and the system adding 8-10GW pa. DG is regulated by ANEEL and typically involves small-scale systems (up to 5 MW) connected to the distribution grid. Consumers can offset their energy bills through net metering, and excess energy is fed back into the grid.

However, despite its benefits, Brazil's DG model faces structural challenges that hinder its long-term viability. Major issues with the model include:

- The lack of integration with the National Interconnected System (SIN), which leads to curtailment. The rapid growth of DG has outpaced infrastructure upgrades, causing reverse energy flows that distribution networks weren't designed to handle. Additionally, DG systems are not monitored in real time by the national grid operator (ONS), raising concerns about grid stability and operational control.
- Consumers can effectively use the grid for storage, for example they can generate during the day when prices are low and feed that into grid but then consume in the evening when prices are high by pulling 'their own' generation out of the grid with no gap paid.
- Regulatory inconsistencies, high grid access fees, and bureaucratic hurdles further complicate expansion.

These structural problems highlight the need for coordinated planning, regulatory reform, and investment in grid modernisation to ensure DG can continue to support Brazil's energy transition effectively.

## Electricity transmission – competitive

There is a lot to be positive of within the Brazilian transmission sector – simple and attractive regulatory model, very high margin operations and huge investment needed which is supported by regulators and politicians alike. However, it is also a sector subject to significant approvals and execution risk and an increasingly competitive auction environment with both domestic and foreign competition for new lines.

This competitive environment has seen returns on new lines squeezed while making operational assets increasingly attractive. As a result, some of the integrated players have failed to gain scale in the transmission sector and/or are using the premium valuations for transmission assets as an opportunity to recycle capital to invest in the more attractively valued distribution sector where huge investment is also needed. For example, Equatorial just sold its transmission operations to fund investment in distribution and/or water and Energisa flagged theirs as a source of capital once capex is complete.

The pure play transmission operators are using their core base to bid for future growth. TAESA is focussing on Brazil and executing well on its growth pipeline while continuing to bid for more; Alupar is capitalising on both domestic and Latin American opportunities; while CTEEP is looking to invest in its existing asset base and executing on recent wins with little capacity to take on more. They are all interesting and worthy of investment consideration.

## Electricity distribution – favoured sub-sector

Strong investment thematics underpin the distribution sector including:

- Concession renewals – every company we spoke to reaffirmed the concession renewal framework with the signing of renewals imminent for every relevant operator.
- New regulatory framework – while impacts to various concessions will differ, we believe the new framework is supportive of industry investment and improved quality and efficiency at a concession level. This involves a shift to a more incentive-based model around efficiencies and quality but with a cap on out-performance. Importantly it distinguishes between urban and non urban concessions to account for demographic anomalies and different customer bases.
- Huge investment needs – with significant capex approved and within plans, some concessions are expected to double their Regulated Asset Base (RAB) over the current investment cycle.
- Investment focus – talking to all the integrated players the focus for allocation of capital was distribution networks, existing or M&A, where they see the best risk reward for an investment dollar eg Neoenergia 100% capex budgets to distribution from 2026, Equatorial clear focus on distribution and water as priority sectors.
- Regulatory returns – direction is up as the recent interest rate dynamic gets factored into regulatory re-sets. As interest rates seem to have peaked this will be supportive over the current investment cycle.
- M&A – widely believed Enel will exit Brazilian distribution with three assets to come to market. Unclear yet whether these would be sold as a package (big ask) or broken up (albeit no-one wants RDJ). Most of the integrated operators will look at these assets, so bidding is expected to be competitive.

Given the level of growth needed we caution that dividend upside will be limited during the investment cycle as the operators manage capex within balance sheet covenants.

We remain positive on the sector and expect increased exposure to Brazilian distribution as we re-weight the portfolio.

## Water – growth execution key

Post the very successful privatisation of Sabesp in 2024, the water sector continues to gain favour. New management is considered very capable as evidenced by strong execution on what is a substantial capex plan as well as increased opex out-performance. Strong fundamentals coupled with further growth opportunities as more assets come to the market are very supportive. With Brazil's sanitation sector requiring R\$900 billion in investment by 2033, Sabesp is well-positioned to lead, supported by strong governance, a 40-year concession model, and EBITDA margins exceeding 60%.

The one overhang for Sabesp out to the end of the year is the uncertainty around the first tariff reset, particularly given a lack of visibility around the preliminary numbers. The CEO believes the regulatory relationship is very strong and supportive of the growth milestones mitigating some of the risk. Should the tariff disappoint, we would use this as a buying opportunity.

## Conclusions

This trip sees us reaffirm our investment in Latin America supported by what we expect to be an improving economic and political outlook, as well as very strong fundamentals from the infrastructure operators. We have factored in the risks and believe the value proposition of the quality infrastructure names continue to be very attractive. In particular we favour Mexican airports, Brazilian toll roads and Brazilian networks in both the power and water sectors.

As always, we maintain a diversified portfolio of high-quality infrastructure names globally, and at the moment, believe these parts of our LatAm universe are deserving of overweights.

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