

# Quarterly Investment Update

AT 31 DECEMBER 2020

## MARKET OVERVIEW

Global equities delivered a positive return over the December quarter, up +5.9% in A\$ terms, after floundering earlier in the quarter amidst a resurgence of COVID-19 cases and uncertainty in the lead-up to the US Presidential election. Sentiment switched decisively from pessimism to optimism in response to positive vaccine news, as well as a resolution to the contentious US election. This sent markets sharply higher in November and into December, before receding slightly towards the end of the calendar year.

Global listed infrastructure rose modestly (+0.8%) over the quarter. The bullish sentiment which prevailed throughout much of the December quarter saw investors generally overlook defensive stocks in favour of assets exposed to the vaccine-led economic recovery.

Performance varied among the infrastructure subsectors with those more sensitive to an improvement in economic conditions among the best performers. Passenger-related transport assets (including airports and passenger railways) also performed well in response to the prospect of travel restrictions being lifted.

## PORTFOLIO PERFORMANCE

In the December quarter, Argo Infrastructure's portfolio rose +0.2%, slightly trailing the benchmark return. Positions in various electric utilities contributed positively to the portfolio's performance, including several renewable energy-focused utilities.

An overweight allocation to the communications subsector detracted from performance as investors rotated away from 'pandemic winners' such as communications tower companies which have been beneficiaries of the surge in data usage during the global lockdowns and the widespread work/study from home trend.

As Argo Infrastructure is unhedged, currency movements impact the portfolio value, both positively and negatively. The very strong performance of the Australian dollar since its March 2020 low has weighed on the portfolio's value, including over the December quarter. Over the three months to 31 December 2020, the Australian dollar rose sharply, up +6.9% to US\$0.77.

## ARGO INFRASTRUCTURE

ASX code	ALI
Listed	July 2015
Portfolio Manager	Cohen & Steers
Shareholders	9,600
Market cap.	\$295m
Management fee	1.2%
Performance fee	Nil
Hedging	Unhedged
Dividend yield <sup>^</sup>	3.6%

<sup>^</sup>Historical yield of 5.2% (including franking) based on dividends paid to shareholders over the last 12 months.

## WEEKLY NTA ANNOUNCEMENT

For the latest weekly NTA estimate, please see [argoinfrastructure.com.au](http://argoinfrastructure.com.au).

## COMPANY OVERVIEW

Provides exposure to an actively managed portfolio of global listed infrastructure companies. Argo Infrastructure has no debt.

## COMPANY OBJECTIVE

Provide a total return for long-term investors consisting of capital growth and dividend income, from a global listed infrastructure portfolio which provides diversification benefits for Australian investors.

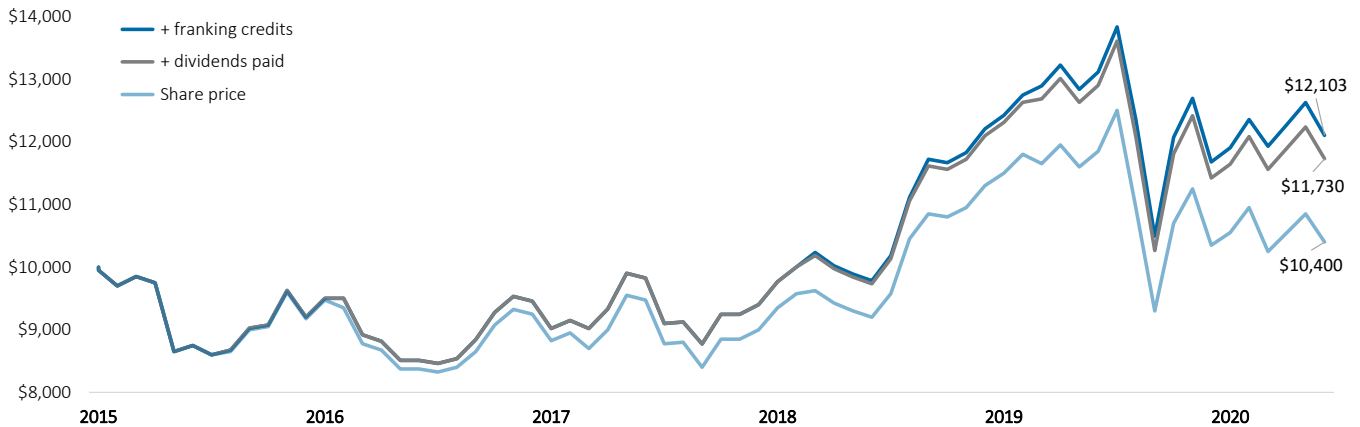
## ABOUT THE PORTFOLIO MANAGER

A leading specialist global real assets fund manager listed on the NYSE, Cohen & Steers manages funds of more than A\$90 billion from offices worldwide on behalf of institutional clients and sovereign wealth funds.

## KEY PERSONNEL

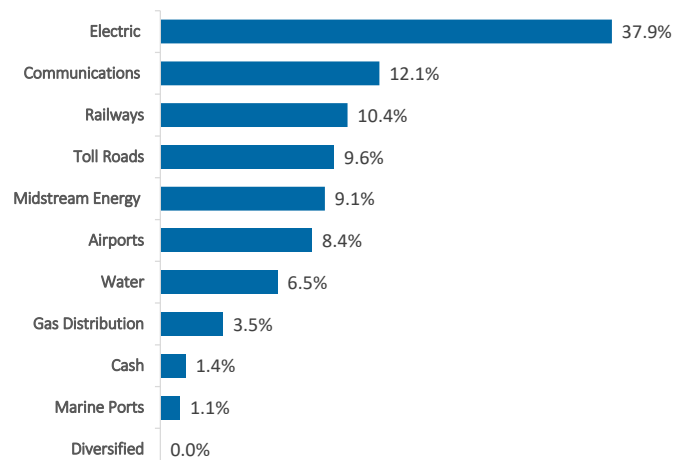
Jason Beddow	Managing Director
Benjamin Morton	Senior Portfolio Manager
Robert Becker	Portfolio Manager
Tyler Rosenlicht	Portfolio Manager

## TOTAL RETURNS VALUE OF \$10,000 INVESTED AT INCEPTION



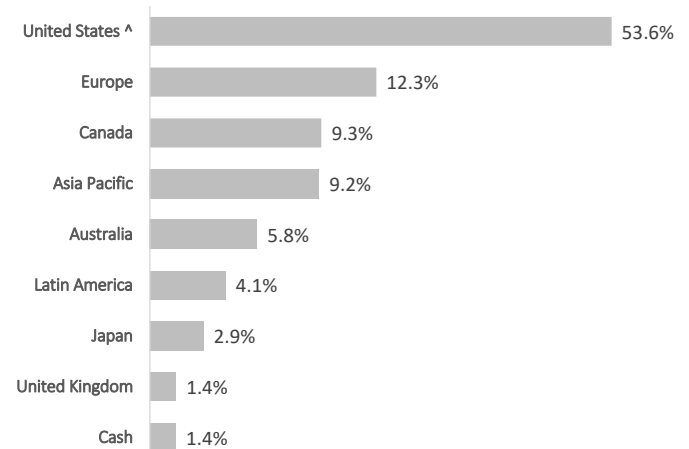
## PORTFOLIO OVERVIEW AT 31 DECEMBER 2020

### Sector diversification\*



\*As a percentage of the investment portfolio.

### Geographic diversification\*



^Many large infrastructure companies are listed in the United States, although their operations and earnings are global.

## TOP 10 PORTFOLIO HOLDINGS AT 31 DECEMBER 2020

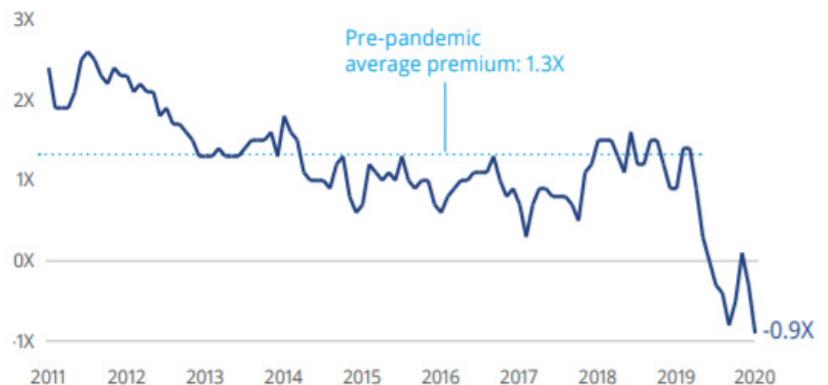
Security name	Country of listing	Subsector	Portfolio (%)	Index (%)
NextEra Energy	US	Integrated Electric	7.8	5.2
Transurban Group	AUS	Toll Roads	5.0	4.8
Norfolk Southern	US	Freight Rails	4.0	0.9
American Tower	US	Communication Tower	3.5	3.8
Enbridge	CAN	Midstream Energy	3.0	2.5
SBA Communications	US	Communication Tower	3.0	1.2
Public Service Enterprise Group	US	Regulated Electric	2.8	1.3
American Water Works	US	Water	2.4	1.2
Airports of Thailand	THAI	Airports	2.3	0.0
Alliant Energy	US	Regulated Electric	2.3	0.6
			<b>36.1</b>	<b>21.5</b>

## HISTORICALLY ATTRACTIVE VALUATIONS

Due to the reliability of returns from infrastructure assets, global listed infrastructure has historically commanded a cash flow multiple premium relative to broader global equities of an average of 1.3 times.

However, this premium has evaporated over the last year with the asset class underperforming broader global equities. This is a result of both the very strong rebound in broader equities since the March 2020 lows, and the disproportionate impacts of coronavirus lockdowns and border closures on many infrastructure assets. As shown in the chart above, infrastructure stocks are now trading at a negative relative valuation (discount) to broader global equities of -0.9 times.

**Infrastructure's historical premium has vanished, representing potential value EV/EBITDA spread (infrastructure minus equities)**



Source: Cohen & Steers. At 31 December 2020.

In fact, infrastructure's valuation multiple relative to broader equities is now at its lowest level in a decade. This current scenario is described as an 'irrational dislocation' by Cohen & Steers, Argo Infrastructure's specialist global Portfolio Manager, particularly given the asset class has a track record of predictable cash flows, strong returns and low volatility. Should uncertainty and volatility return to markets again, these features will undoubtedly be attractive to investors.

## INFRASTRUCTURE'S POSITIVE OUTLOOK

The majority of infrastructure subsectors have a positive long-term outlook, with both cyclical and structural tail winds positioning these assets for growth over the longer term. In addition, numerous governments worldwide have committed funding to infrastructure investment as part of their COVID-19 stimulus measures aimed at driving economic growth.

A number of key global trends support the outlook for many infrastructure assets. For example, the ever-increasing data-intensity of business, public and private life will drive continued strong demand for communications infrastructure, such as towers and data centres. The worldwide decarbonisation trend is set to underpin further demand for renewable energy and investment in assets such as wind and solar. This will benefit electric utilities with a strategic focus on renewables, such as NextEra Energy, the world's largest wind and solar power generator and Argo Infrastructure's top holding.

Global listed infrastructure offers investors access to these global trends, as well as the attractive characteristics of this diversified asset class, at prices that are attractive relative to historical valuations.

### READ MORE

For more detail about this topic, as well as current infrastructure investment themes, see Cohen & Steers's latest infrastructure insights paper: 'Data, decarbonisation and the travel recovery' [here](#).



## OUTLOOK

With the discovery of several effective coronavirus vaccines and the commencement of vaccine roll-outs in various countries, investors are gaining more confidence in the global economic recovery. The outlook for global listed infrastructure is positive, although it has recently lagged broader equities. As discussed on page 3, global listed infrastructure appears to be attractively priced relative to broader equities, particularly given our expectation that monetary policy will remain highly accommodative.

Argo Infrastructure's Portfolio Manager, Cohen & Steers, has taken modest steps towards a more balanced investment portfolio, increasing allocations to the bigger beneficiaries of increased economic activity. Holdings in pandemic outperformers (such as the communications subsector) have been reduced, while exposure to cyclical via subsectors adversely impacted by COVID-19 has been increased.

With uncertainty around the timing and pace of economic recovery, Cohen & Steers remains focused on companies with strong balance sheets and liquidity profiles. Despite selectively adding to airports holdings, we continue to be cautious about the outlook for mass transit-oriented infrastructure prior to the rollout of vaccinations to the world's population.

## ARGO INFRASTRUCTURE SHAREHOLDER BENEFITS



### Global diversification

Exposure across various geographies and both emerging and developed economies



### Proven investment approach

Experienced and senior investment team with a long and successful track record



### Specialist global fund manager

Access to a world-leading, specialist infrastructure fund manager



### Enhance risk-adjusted returns

Less volatile than broader equities providing some relative downside protection



### Access infrastructure opportunities

New opportunities offshore through government privatisations



### Administratively simple global investing

Exposure to a large and complex asset class through one simple ASX trade

## HOW TO INVEST

Argo Infrastructure is listed on the Australian Securities Exchange (ASX) under the ASX code 'ALI'. To become a shareholder, simply buy shares through your stockbroker, online broker, financial adviser or platform.

## CONTACT US

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## SHARE REGISTRY ENQUIRIES

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