

# Quarterly Investment Update

AT 31 MARCH 2021

## MARKET OVERVIEW

Investor sentiment see-sawed over January and February amid COVID-19 vaccine rollout challenges, new virus strains and rising bond yields which triggered inflation fears. However in March, as expectations for a sustainable economic recovery grew, investors shrugged off these concerns, sending global listed infrastructure companies sharply higher. In March alone, global infrastructure stocks surged +8.8% in A\$ terms, providing a quarterly return of +5.4%.

Growing optimism saw economically-sensitive infrastructure subsectors among the best performers over the quarter with marine ports (+20.1%), midstream energy (+17.0%) and railways (+8.2%) posting strong gains.

In contrast, new and extended travel restrictions (particularly in Europe) weighed on passenger transport infrastructure stocks with airports (+1.1%) and toll roads (+0.3%) posting smaller gains. Some subsectors that had underperformed earlier in the quarter rebounded strongly in March, such as electric utilities which surged +11.7% over the month.

## PORTFOLIO PERFORMANCE

In the March quarter, Argo Infrastructure's portfolio generated a positive return rising +4.7%, slightly behind the sector benchmark.

Portfolio positions in railway companies contributed positively to performance with these stocks rallying on expectations of volumes continuing to rise. A holding in Kansas City Southern was particularly beneficial – shares in the company soared following the announcement of its acquisition by Canadian Pacific Railway. The deal, valued at approximately US\$29 billion, will create the first US-Mexico-Canada rail network.

Stock selection among gas distribution companies also bolstered performance, notably an overweight position in ENN Energy Holdings which was the best performing stock in the subsector.

Argo Infrastructure's portfolio outperformed domestic equities demonstrating the diversification benefits of the asset class.

## ARGO INFRASTRUCTURE

ASX code	ALI
Listed	July 2015
Portfolio Manager	Cohen & Steers
Shareholders	9,500
Market cap.	\$314m
Management fee	1.2%
Performance fee	Nil
Hedging	Unhedged
Dividend yield <sup>^</sup>	3.9%

<sup>^</sup>Historical yield of 5.6% (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](https://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\$100 billion from offices worldwide on behalf of institutional clients and sovereign wealth funds.

## KEY PERSONNEL

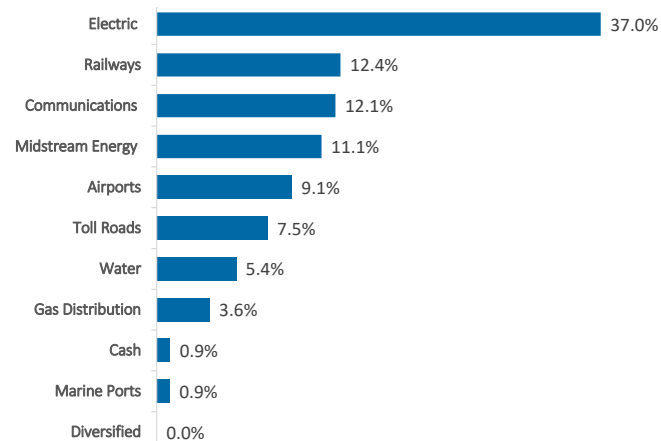
Jason Beddow	Managing Director
Benjamin Morton	Senior Portfolio Manager
Robert Becker	Portfolio Manager
Tyler Rosenlicht	Portfolio Manager

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



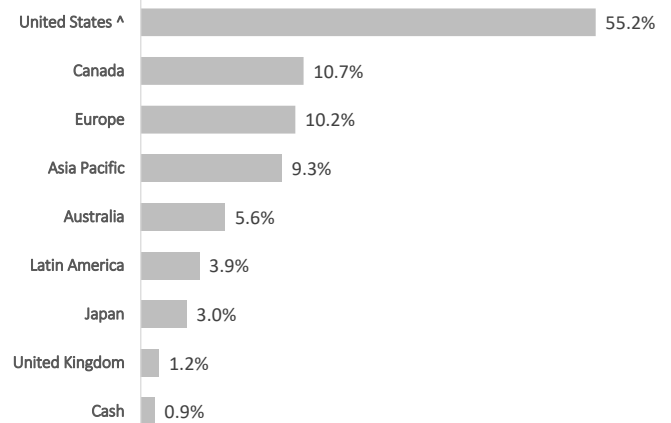
## PORTFOLIO OVERVIEW AT 31 MARCH 2021

### 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 MARCH 2021

Security name	Country of listing	Subsector	Portfolio (%)	Index (%)
NextEra Energy	US	Integrated Electric	6.1	5.1
Transurban Group	AUS	Toll Roads	4.7	4.3
Norfolk Southern	US	Freight Rails	4.4	0.9
American Tower	US	Communication Tower	3.6	4.0
Enbridge	CAN	Midstream Energy	3.0	2.8
Public Service Enterprise Group	US	Regulated Electric	2.9	1.3
SBA Communications	US	Communication Tower	2.8	1.2
The Southern Company	US	Integrated Electric	2.7	2.8
AENA	SPAIN	Airports	2.6	1.8
FirstEnergy Corporation	US	Regulated Electric	2.4	0.8
			<b>35.2</b>	<b>25.0</b>

## HUGE US INFRASTRUCTURE STIMULUS

The recently announced US\$2.4 trillion infrastructure and tax package for the United States is being hailed as positive for listed infrastructure.

Unveiled by the Biden Administration on 31 March 2021, the sweeping package is designed to create millions of jobs through capital investment in the “nation’s productivity and long-term growth.”

### HOW KEY PROVISIONS COULD BENEFIT LISTED INFRASTRUCTURE



Provision	Impact	Potential beneficiaries
<b>Total proposed spending</b>	Supportive of stronger economic growth and higher inflation	Most subsectors, especially transportation infrastructure
<b>Power infrastructure</b>	Renewable energy growth opportunities	Electric utilities, renewable energy developers
<b>Digital infrastructure</b>	New rural opportunities for digital expansion	Cell towers, data centers
<b>Water infrastructure</b>	Opportunities for water quality improvements	Water utilities
<b>Transportation infrastructure</b>	Greater attention to need for additional investment	Railways, toll roads, ports

Source: Cohen & Steers; whitehouse.gov. At 31 March 2021.

Many of the proposed measures are focused on revitalising and creating infrastructure, including upgrading roads, railways, airports and bridges, replacing lead water pipes, laying electricity transmission lines and building high-speed broadband infrastructure.

Funding for the plan is proposed to come from increased corporate tax rates. However many infrastructure companies (particularly utilities) can pass on tax increases to customers which would likely limit the impacts of these measures.

The proposed package must now go before Congress for approval which may result in amendments to the plan.

### MORE INFORMATION

To find out more about this topic, see Cohen & Steers’ latest infrastructure insights paper: ‘Infrastructure tailwinds could get boost from \$2T Biden Plan’ [here](#) or watch their video ‘Stimulus proposal could add fuel to infrastructure tailwinds’ [here](#).

## INFLATION AND INFRASTRUCTURE

Investors have a sharp focus on inflation following a run-up in bond yields in the US and other major economies in recent months. Consensus expectations that inflation will now flatten off may be overlooking the potentially inflationary impacts of the vast fiscal stimulus being deployed globally and central banks’ commitment to keep interest rates ‘lower for longer’. Although there may not be a risk of runaway inflation, historical estimates have proved unreliable.

During prior periods of unexpected inflation, real assets, including global listed infrastructure, have outperformed broader equities. Revenues from infrastructure assets have often been linked directly or indirectly to inflationary trends. This is because many infrastructure assets have contractual provisions that allow the owner to adjust user fees via either, fixed annual increases that approximate inflation, or variable increases reflecting consumer or producer price index changes.

Furthermore, economically-sensitive infrastructure subsectors, such as transportation, can benefit from improving economic conditions and increasing volumes.

To find out more about this topic, see Cohen & Steers’ latest real assets insights paper: ‘Three strategies for building inflation-resilient portfolios’ [here](#).



## OUTLOOK

The distribution of COVID-19 vaccines globally, as well as continued monetary and fiscal policy support, are buttressing sentiment and providing confidence in a sustained economic recovery. We expect a return to more normal levels of economic activity by the second half of 2021. However, the path ahead may be uneven, with new virus strains emerging and ongoing travel restrictions across various jurisdictions.

Argo Infrastructure's Portfolio Manager, Cohen & Steers, has positioned the portfolio to reflect this cautiously optimistic outlook, including increasing exposure to subsectors set to benefit from an expansion in economic activity. For instance, the portfolio has an overweight position in North American freight railways based on expectations for continued strong freight volumes and earnings momentum. Conversely, the portfolio is underweight mass-transit focused infrastructure, such as airports and toll roads, in anticipation of a delayed return in travel.

Global listed infrastructure valuations relative to broader equities remain at historic lows, even taking into account recent strong performance. This is in sharp contrast to the premium the asset class historically commands, providing a potentially attractive opportunity for investors.

## 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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