

Quarterly Investment Update September 2022



Market overview

Global infrastructure stocks declined in the September quarter amid considerable volatility and declines across broader global equities. Despite a strong start, market declines accelerated as the quarter progressed. Sentiment was impacted, in large part, by comments in late August from US Federal Reserve Chair, Jerome Powell, indicating that the central bank was not intending to slow monetary policy tightening as much as investors had hoped. In response, global bond yields moved sharply higher and the US dollar continued its remarkable rally. In addition, oil prices slumped as concerns of a global slowdown grew.

Against this backdrop, nearly all listed infrastructure subsectors posted negative returns for the quarter. The rising interest rate environment hampered several subsectors with communications (data centres and towers) and utilities among the worst performing subsectors. It is worth noting that while listed infrastructure companies tend to be impacted by rising interest rates initially, historical data shows that this effect is generally short-lived.

Airports and passenger railways were relative outperformers on higher year-on-year volumes. Midstream energy stocks fell in unison with the oil price, although for the calendar year to date, the subsector has returned +15.7%, well ahead of all other subsectors.

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Portfolio performance

In the September quarter, Argo Infrastructure's portfolio declined -2.6% in A\$ terms, slightly ahead of the benchmark index which returned -2.7%. A holding in US natural gas and LNG distributor, Cheniere Energy, contributed positively to the portfolio's performance. The company's share price continued to benefit from growing demand for US natural gas from Europe and Asia. A position in Waste Management (environmental services) also added to performance, with the company reporting solid earnings and benefiting from inflation-protected contracts, ensuring durable margins.

As Argo Infrastructure's portfolio is unhedged for currency, the weakening Australian dollar provided a tailwind for performance during the quarter.

For the 12 months to 30 September 2022, Argo Infrastructure's portfolio gained +6.2%, outperforming broader Australian equities which declined -7.7%, demonstrating the diversification benefits of the asset class. We believe this highlights the diversification benefits and downside protection offered by the asset class.

	3 months	1 year	3 years (p.a.)	Since inception (p.a.)
Portfolio ¹	-2.6%	+6.2%	+2.8%	+8.0%
Benchmark ²	-2.7%	+5.4%	+1.5%	+7.4%
S&P/ASX 200 ³	+0.4%	-7.7%	+2.7%	+6.3%

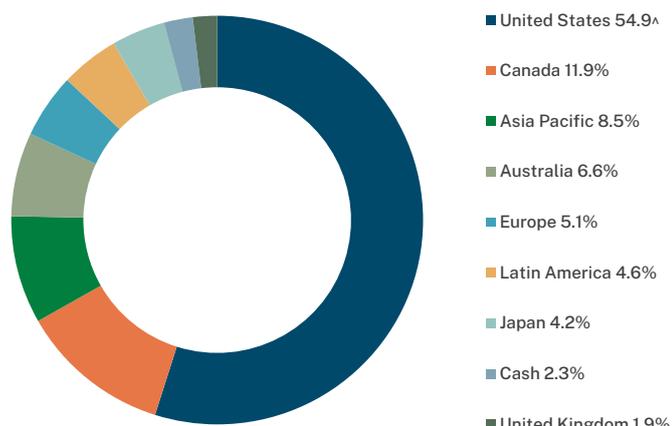
¹ Before Fees ² FTSE Global Core Infrastructure 50/50 Index (in A\$) ³ Accumulation Index

Total Returns value of \$10,000 invested at inception



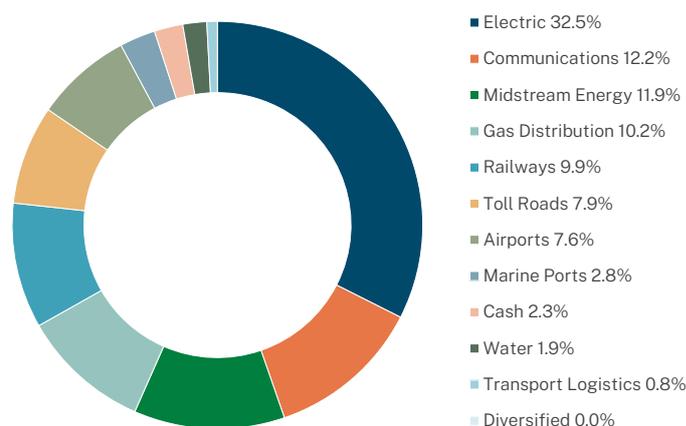
Portfolio

Geographic diversification*



* As a percentage of investment portfolio

Sector diversification*



^ Many of the largest infrastructure companies are listed in the US, although their operations and earnings are often global.

Top 10 Holdings at 30 September 2022

Security name	Country of listing	Subsector	Portfolio (%)	Index (%)
NextEra Energy	US	Electric	7.1	5.2
Transurban	AUS	Toll Roads	5.2	4.6
American Tower	US	Communication Tower	5.0	3.6
Norfolk Southern	US	Railways	4.5	0.9
Sempra Energy	US	Gas Distribution	4.1	2.0
American Electric Power	US	Electric	2.8	1.9
PPL	US	Electric	2.7	0.8
Cheniere Energy	US	Midstream Energy	2.7	1.5
SBA Communications	US	Communication Tower	2.6	1.1
TC Energy	CAN	Midstream Energy	2.4	1.5
			39.1	23.1

Annual General Meeting

Last week in Adelaide, we held our first in-person AGM since 2019. It was wonderful to have the opportunity to meet face-to-face with some of our shareholders. If you weren't able to join us, various materials from the AGM, including slides, speeches, recordings, and a video by Ben Morton from our Portfolio Manager, Cohen & Steers can be found via our website [here](#).

In past years, the AGM was followed by information meetings in various capital cities providing the opportunity for in-depth discussion about current market conditions with members of our team, including Cohen & Steers. However, with the pandemic continuing to create considerable uncertainty during the planning stages, we decided to postpone these meetings until May of next year (details will be provided in early 2023).

In the interim, Managing Director, Jason Beddow, discusses the recent performance of global listed infrastructure and trends for the asset class in a short video. To watch, click on the image above or go to [this link](#).



Outlook

In the current environment of persistent inflation, aggressive monetary policy tightening and moderating global growth, Argo Infrastructure's Portfolio Manager, Cohen & Steers, has been strategically adding to several high-quality companies (principally among freight railways) with solid growth potential in a weaker economic environment. After stronger relative performance recently, exposure to environmental services has been reduced.

We expect elevated inflation and higher interest rates will continue to be the main investment themes and will drive asset allocation decisions. Amid rising bond yields and challenging economic periods, there can be significant performance dispersion among the various infrastructure subsectors. Most infrastructure businesses can pass rising costs on to end users and, as a result, they have tended to perform well during periods of unexpected inflation.

Of note, the passage of the Inflation Reduction Act in the US could provide long-term benefits to infrastructure companies with renewables exposure through the provision of substantial subsidies to accelerate the development of renewables.

Several significant corporate transactions have been recently announced across various infrastructure subsectors and geographies. Although the pace of corporate activity may moderate given the economic uncertainties currently, we generally expect this trend to continue, which in turn may provide valuation support for listed infrastructure.

Looking further ahead, notable structural drivers support the outlook for the asset class, including decarbonisation and digitisation of the global economy. Continuing investment in the development of major infrastructure to facilitate these transitions will be required worldwide.

About us

At a glance

ASX code	ALI
Listed	2015
Manager	Argo Investments
Portfolio Manager	Cohen & Steers
Market cap.	\$394m
Shareholders	9,400
Hedging	Unhedged
Management fee	1.2%
Performance fee	Nil
Dividend yield [^]	3.4%

[^] Historical yield of 4.9% (including franking) based on dividends paid over the last 12 months.

Company overview

Provides exposure to a diverse portfolio of global infrastructure stocks. The portfolio is actively managed by Cohen & Steers (NYSE: CNS), a leading specialist global real assets fund manager managing funds of over A\$100 billion for institutional clients and sovereign wealth funds from offices worldwide.

How to invest

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

Share registry enquiries

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Shareholder benefits



Global diversification

Exposure across various geographies and both emerging and developed economies



Specialist global fund manager

Access to a world-leading, specialist infrastructure fund manager



Access infrastructure opportunities

New opportunities offshore through government privatisations



Proven investment approach

Experienced investment team with a long and successful track record



Enhance risk-adjusted returns

Less volatile than broader equities providing some relative downside protection



Simple global investing

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

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