Monthly commentary / 30.9.2024

Vontobel Fund II – Duff & Phelps Global Listed Infrastructure

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NO, SE, SG (Professional Investors only).

Market developments
The third quarter of 2024 brought healthy returns across most asset classes, but not without some volatility along the way. In early August, weaker US economic data, the Bank of Japan hiking its key interest rate, and an abrupt unwinding of the Japanese carry trade funded in yen led to a sharp selloff across global equity markets. In September, however, the Federal Reserve initiating its interest-rate cutting cycle, a less hawkish tone from Japanese policymakers, and China's government announcing an economic-stimulus package helped to soothe investor concerns, supporting a stock rally into quarter-end. Global developed markets, as measured by the MSCI World Index (net), rose by 6.4% on a total return basis. Global listed infrastructure stocks, as measured by the FTSE Developed Core Infrastructure 50/50 Index (net), increased by 13.9% in the quarter, besting the broader market.

Portfolio review
The communications sector vaulted higher and was the best-performing sector in the quarter. Easing interest rates were the catalyst, benefiting tower stocks across Europe and the US. As interest-rate headwinds continue to dissipate, we believe the attractive risk-reward profile for tower stocks, supported by a solid business model and strong long-term fundamentals, will become more apparent.
Utility stocks were strong in the quarter, also benefiting from the tailwind provided by lower interest rates. All eyes are on the expansion of artificial intelligence (AI), as power-hungry data center projects are driving an uptick in electricity demand. While most of the early data-center announcements are in the US, we expect this trend to continue and expand to other geographies.
Energy infrastructure stocks also rose in the quarter. Signs of a soft landing for global economies supported investors' views that there will be sustained demand growth for oil and gas, implying continued volume growth for the midstream energy companies. Natural-gas infrastructure stocks were strong and benefited from a theme of rising natural-gas demand to fuel data center growth.
Transportation stocks moved up in the quarter, though returns were more muted than the benchmark. European airport stocks were strong, with passenger traffic volumes showing continued strength. North American railroads were a mixed bag. Traffic volumes continued to grow, but Canadian rails lagged, due to concerns over labor negotiations. Toll-road stocks were solid, benefiting from lower interest rates and steady operational results.

Performance analysis
Versus the benchmark, our stock selection within the respective sectors contributed positively for transportation and utilities, negatively for midstream-energy sector, and neutrally for communications. Our sector allocation was a drag overall, as the positive contribution by our overweight in communications could not offset the negative contributions by our overweights in transportation and midstream energy and our underweight in utilities.
At security level, the largest positive contributors were Norfolk Southern and Atlas Arteria. Norfolk Southern, a freight railroad with operations in the Eastern US, performed well on the back of solid second-quarter results that highlighted the operational turnaround underway at the company. Amid pressure from an activist investor, new management of the company has undertaken a series of network changes and cost initiatives that quickly gained traction. We look forward to continued improvements at the company. In Atlas Arteria, an Australian toll-road operator with toll roads in Europe and the US, we held an underweight and ultimately sold the position during the quarter. We believe the stock lagged because investors realize the value of the company's stake in French toll roads is declining, as the concession's expiration date approaches. The French toll roads represent the company's largest asset, and management is finding it difficult to offset the value erosion.
The largest detractors were CenterPoint Energy and Cheniere Energy. CenterPoint Energy's largest utility, Houston Electric, was hit hard by Hurricane Beryl in early July, impacting service for more than two million customers. Houston Electric communicated poorly leading up to the storm and during the recovery process, which led to significant negative publicity and political backlash. However, we are confident that CenterPoint's management has improved storm-response protocols and will rebuild constructive regulatory relationships. Over time, severe weather may potentially prompt the company to increase resiliency capital-spending, resulting in a higher rate base. Cheniere Energy is the leading producer and exporter of liquefied natural gas (LNG) in the US. The muted performance in the quarter seems to be a function of lower global gas prices along with reports that European gas-storage levels are already filled. Cheniere enjoys a heavily contracted

business model with visible future growth and little concern for near-term gas prices.

Outlook

We expect wireless-tower activity in the US to remain healthy, as carriers shift from the initial stages of 5G buildout and blanket coverage to focus on more targeted network densification. Internationally, we expect solid organic growth to continue, as Europe and other regions forge ahead with their 5G expansion, while many emerging markets are still building 4G networks. Even though tower activity has moderated compared to historical trends, we are encouraged by recent management commentary pointing to an acceleration in carrier activity.

Utilities should benefit from the transition to renewable energy, increased power demand, and renewal of assets – tailwinds we expect to last for years to come. We believe there are multiple capital-growth opportunities, not just for renewables but also for transmission lines and resiliency spending. These investments in the utility grid both in the US and Europe should support earnings and represent a long-term positive for the sector. Despite recent strong performance, US regulated utilities still trade at a historical discount to the broader market, while the integrated utility and electric-grid companies in Europe possess a good risk/reward balance in our view.

Our outlook for the transportation sector is positive, due to cyclical growth trends. Toll roads proved resilient in various market environments due to their stable business models. We prefer toll roads that are delivering strong returns on their acquisitions and have limited exposure to expiring concessions. Airports have experienced a robust recovery of passenger air travel, and some have emerged from the pandemic with an improved return profile due to a higher mix of non-regulated activities. We continue to favor airports that have high exposure to leisure travel and profitable airline customers. GDP growth in Europe is expected to reaccelerate from the current low level and provide a positive backdrop for travel demand in the region. The growth outlook for North American railroads has improved. Service levels have risen significantly, freight volumes are growing, and margins are starting to inflect higher. We are optimistic that rails will reclaim their pricing power in the coming quarters.

We remain constructive on the midstream-energy space with both supply-side constraints and structural growth in demand being key pillars of our positive outlook. Production discipline of the Organization of the Petroleum Exporting Countries and their allies (OPEC+) is expected to keep crude-oil markets balanced in the foreseeable future, sustaining prices around the current healthy levels. We believe this should enable North American energy companies to grow production volumes modestly, which in turn would support higher midstream earnings and cash flow. One potential risk are signs of softer crude-oil demand from China, leading us to reduce portfolio holdings with the highest exposure to a slowdown. For natural gas, we expect commodity prices to respond positively to the latest volume curtailments and reductions in drilling activity by producers. In our view, these actions should lead to even higher prices in the future. Significant new LNG demand and increased power generation needs to support AI are becoming more evident as long-term growth drivers.

The coming months will present challenges, as companies adjust to changing interest rates, commodity prices stay volatile, and political uncertainties remain. We believe secular trends support continued progress within each sector. Asset renewal, energy security, decarbonization, and data growth are driving durable, long-term investment cycles that will continue for years to come, despite any potential negative short-term economic developments. As always, we will continue to closely monitor global developments through our research and management meetings, incorporating changes to portfolio positioning as warranted.

Fund characteristics

Fund name	Vontobel Fund II – Duff & Phelps Global Listed Infrastructure
ISIN	LU2167912745
Share class	I USD
Reference index	FTSE Developed Core Infrastructure 50/50 Index
Inception date	6.7.2020

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	2.9%	2.6%
YTD	13.9%	15.2%
1 year	27.4%	28.2%
3 yrs p.a.	4.7%	6.1%
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	6.9%	8.2%

Time period	Fund	Ref. index
2023	1.1%	2.2%
2022	-8.1%	-5.8%
2021	13.1%	15.1%
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–
2015	–	–
2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

Investment risks

- The sub-fund invests in companies engaged in the infrastructure industry, that are exposed to the risk of the monopoly of the public sector in this area which, as a rule, is the sponsor of the most infrastructure projects. This virtually monopolistic position of the public sector translates into a number of dependencies of the infrastructure companies from the public sector: fiscal (spending) policy of the government, openness and fairness of the tendering processes and protection of the infrastructure companies against unfair competition practices, market and price setting powers of the monopolist, to name some of them.
- A company's stock price may be adversely affected by changes in the company, its industry or economic environment and prices can change quickly. Equities typically involve higher risks than bonds and money market instruments.
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

and the correct execution of the ESG strategy. As investors may have different views regarding what constitutes sustainable investing or a sustainable investment, the fund may invest in issuers that do not reflect the beliefs and values of any specific investor.

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