Monthly commentary / 30.8.2024

Vontobel Fund II – Duff & Phelps Global Listed Infrastructure

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, SG (Professional Investors only).

Market developments
August was an eventful month for investors, dashing the idea that the markets have a summer lull. An interest-rate hike and hawkish tone from the Bank of Japan led to an abrupt unwinding of carry trade positions that relied upon cheap Japanese yen borrowing costs. This surprise development – coupled with disappointing US economic data – sparked a sharp sell-off across global equity markets. However, the sell-off was short-lived, as investors took comfort in the prospect of lower interest rates as well as solid second-quarter earnings results that showed few signs of an imminent economic slowdown.
Equities in global developed markets, as measured by the MSCI World Index (net), rose 2.64% on a total return basis. Global listed infrastructure stocks, as measured by the FTSE Developed Core Infrastructure 50/50 Index (net), increased 4.35% in August, besting the broader market.

Portfolio review
We believe wireless tower activity in the US should 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, the long-term master lease agreements between the towers and the carriers provide a predictably healthy level of organic growth and cash flows for the tower companies.
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. We find valuations of North American regulated utilities to be attractive, 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, given cyclical growth trends. Toll roads have shown resiliency 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 strong 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. Economic growth in Europe is reaccelerating, which provides 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 generally constructive on the midstream energy space, with both supply-side constraints and structural demand growth being key pillars of our positive outlook. We believe production discipline by the Organization of the Petroleum Exporting Countries and their allies (OPEC+) should continue to keep crude-oil markets balanced for the foreseeable future, sustaining prices around the currently healthy levels. This should enable North American energy companies to grow production volumes modestly, which in turn would support higher midstream earnings and cash flow. For natural gas, we expect commodity prices to respond positively to the latest volume curtailments and reductions in drilling activity by producers. These actions should lead to even higher prices in the future. Significant new demand for liquefied natural gas (LNG) and increased power generation needs to support artificial intelligence (AI) are becoming more evident as long-term growth drivers. Global LNG prices moderated from the elevated levels of recent years following two consecutive mild winters that have left global inventories flush. However, weather-adjusted trends stay healthy with both Europe and Asia remaining captive to LNG imports to support heating, power generation, and industrial production.

Performance analysis
Energy infrastructure was the best performer in the month due to strong earnings as well as acquisition and divestiture activity. The sector was led by ONEOK, which announced acquisitions of EnLink Midstream and privately held Medallion Midstream. This transaction will expand ONEOK’s fee-based businesses and diversify the company’s basin footprint. TC Energy also performed well as the company prepares to spin off its liquids business.
Utility stocks traded higher in the month as the utility rally continued. Second-quarter earnings results were solid, while

stocks were bolstered by expectations of lower interest rates and the sector proved a safe haven amid rising market volatility. Many management teams cited increasing power demand, as AI boosts the level of energy required to support the computational and storage needs of data centers.

Transportation stocks moved higher in the month, with generally positive results across the group. Grupo Aeroportuario del Centro Norte (OMA) was an exception and declined in the month. Investors were cautious on OMA and other Mexican airports due to regulatory uncertainty following the recent election. We believe President-elect Claudia Sheinbaum will pursue similar policies to those of her predecessor and will continue to honor existing concession agreements.

The communications sector also rose in the month. Easing interest rates were the catalyst, as tower stocks across Europe and the US traded higher. Given interest-rate headwinds begin 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.

Outlook

The coming months will present challenges, as companies adjust to changing interest rates, volatile commodity prices, and continued political uncertainties. 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	4.1%	4.4%
YTD	10.7%	12.3%
1 yr	17.2%	18.7%
3 yrs p.a.	2.4%	4.1%
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	6.3%	7.7%

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.

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