



# QUARTERLY REPORT MARCH 2022

Investing in the future of Australian infrastructure

## Market commentary

### Inflationary concerns

Many would be forgiven for thinking that the pandemic that has engulfed the globe since 2019 is coming to an end. Whether this is true or not, there is no doubt that the last six to 12 months has seen the world emerge from its pandemic-induced slumber. Whilst this is of course a good thing, it has meant that recent headlines have been dominated by the potential impact on financial markets – the key talking point being inflation. Whilst there have been some short-term or transitory causes of high inflation – Covid affected supply chains being the main one – it is the long-term structural causes such as the soaring cost of global energy that have many concerned. Notably, these concerns were being discussed prior to Russia's invasion of Ukraine in February, and given the region's importance from both an energy and agricultural perspective, the conflict is placing increased pressure on the prices of energy and food.

As a result of the above factors, US inflation for the 12 months to March 2022 was 8.5%, an increase not seen since 1981. Whilst economic forecasters are not predicting that Australia will see those same levels, Australian CPI is showing signs of upward pressure, with annual CPI to December 2021 of 3.5%. Notwithstanding these levels are nowhere near what is being experienced in the US, concern lies in the fact that monetary policy tools of increasing interest rates to combat high inflation may be less of an option for the Reserve Bank of Australia given unprecedented levels of household debt – an option which if undertaken may be as crippling (or more) as the impacts of high inflation.

So in a world with high inflation, how do investors ensure that they continue to generate real returns? Investment folklore has suggested that investments that are "too heavy to carry", such as commodities (particularly gold) and real assets, are good at providing a level of inflation protection. Traditionally, one of the hallmarks of the infrastructure asset class has been its inflation linkage, typically due to the ability to pass-through changes in CPI in the various contractual structures within each investment. This is evident within Palisade's own portfolio, with a portfolio correlation across our flagship diversified fund of 0.82 (meaning a 1% increase in inflation results in a 0.82% increase in the value of the portfolio).

Now more than ever investors need to be cognisant of the impact of inflation on their portfolios. Inflation correlation has been a mainstay of Palisade's Factor Risk framework since the establishment of our business, and we will continue to pursue investments that ensure this high level of inflation correlation is maintained, and investors' real returns remain protected.

## Inside Palisade

### Modern Slavery risk review

As part of Palisade's ongoing approach to managing modern slavery in its portfolio, last year Palisade rolled out a proprietary Modern Slavery Risk Assessment (MSRA) template to each of its portfolio companies. During the last quarter responses were received, interrogated and collated across the portfolio.

Key observations from Palisade's assessment are:

- ~95% of Palisade-managed assets completed the MSRA in 2021/2022, despite only one asset being required to report under the Modern Slavery Act
- Given the nature of the portfolio, modern slavery risk focused on supply chains, with over 500 suppliers assessed across the portfolio
- Zero modern slavery incidents were identified
- The portfolio is generally considered to be low risk, with two assets being identified as having a heightened inherent risk (with mitigants put in place)

Pleasingly, each asset's management team are aligned with Palisade's ongoing improvement approach and have put in place processes to proactively manage and mitigate modern slavery risks in supply chains, including:

- Requiring suppliers to sign modern slavery-related declarations, or including modern slavery-related clauses in contracts
- Site visits/visiting supplier factories where appropriate and possible
- Including a requirement for suppliers to report modern slavery incidents and improvement measures as part of contracts
- Review of the modern slavery statements issued by key suppliers and engagement with suppliers on the content of these statements

Palisade is committed to ongoing improvement in relation to our approach to modern slavery, and look forward to sharing examples with investors of good practice amongst the Palisade portfolio.

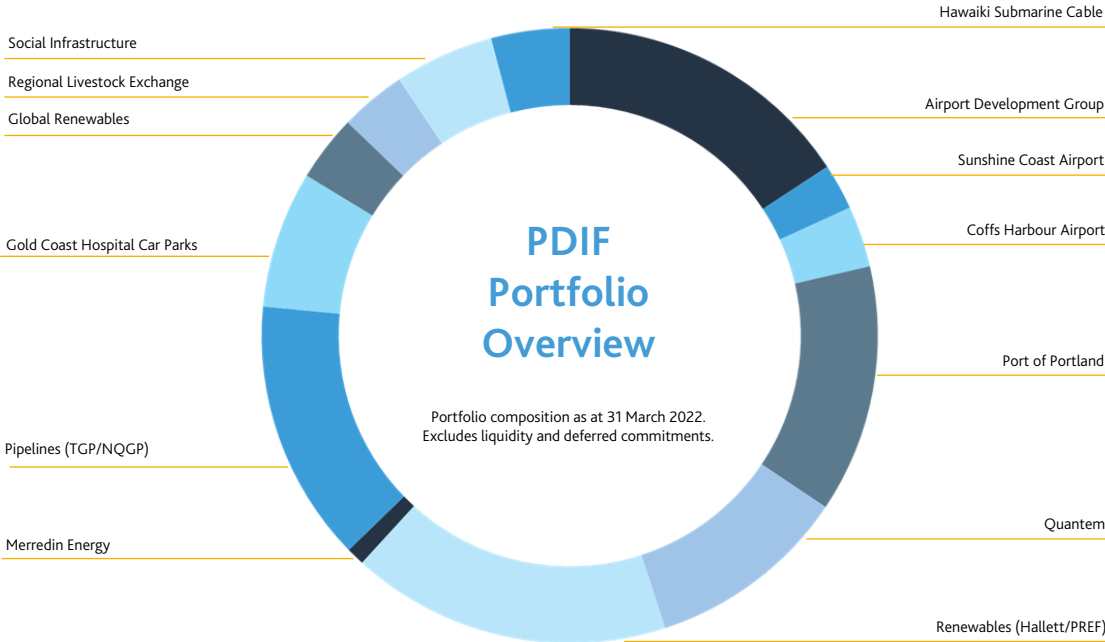
### Palisade's ESG framework

As part of their engagement with Palisade Impact, Tideline, a leading global impact management consultancy, reviewed Palisade's ESG framework including the policies, procedures, tools and templates which give effect to Palisade's approach to ESG. Tideline's feedback was overwhelmingly positive of the framework, including the strategy, origination and investment management aspects of Palisade's approach.

# Fund overview

## Palisade's Diversified Infrastructure Fund (PDIF)

PDIF provides investors with an opportunity to invest in a diversified portfolio of infrastructure assets and aims to provide investors with long-term capital growth and stable cash distributions.

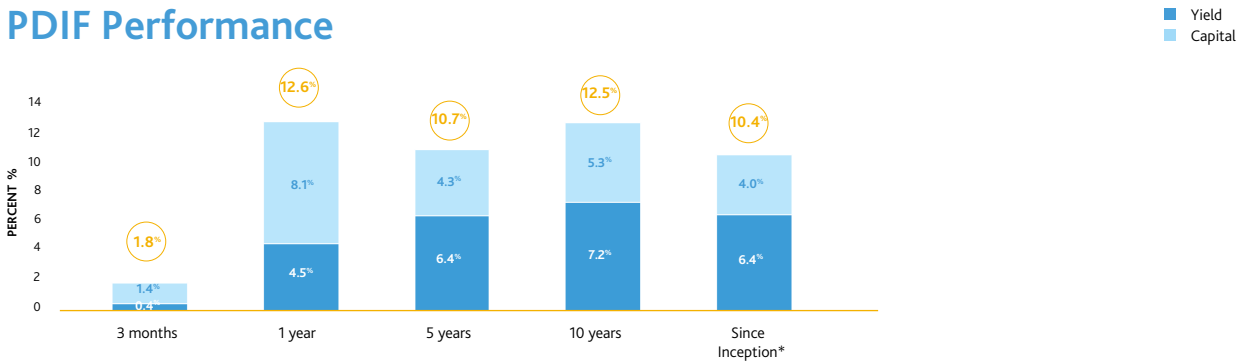


\* Estimated commitments relating to signed but unfunded transactions

## PDIF Q3 FY22 Key Highlights

- Following the relaxing of restrictions, airport pax levels – particularly for Sunshine Coast and Coffs Harbour – continue to show dramatic improvement with both airports now tracking broadly at pre-Covid levels. Furthermore, in February, new airline Bonza announced that Sunshine Coast Airport would be its base airport.
- Quantem Bulk Liquids completed a \$517m refinancing with above budget surplus cash distributed to shareholders (including PDIF) in March.
- The sale of Hawaiki interests to BW Group remains on track and is forecast to complete by June 2022.

## PDIF Performance



Gross performance as at 31 March 2022

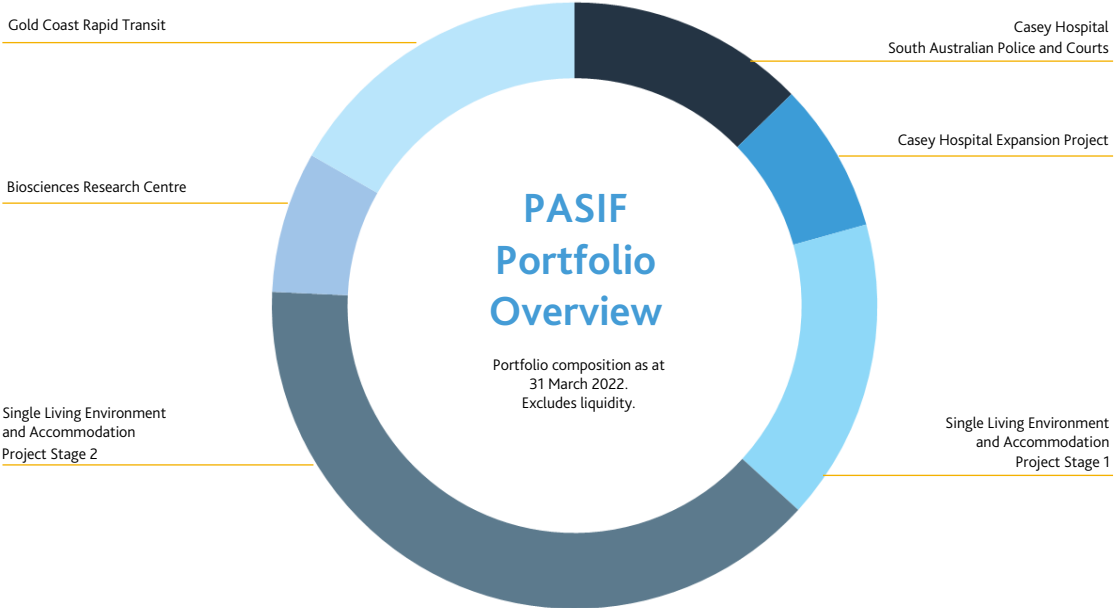
Returns for periods greater than 12 months have been annualised

\* Inception date August 2008 (Palisade management)

Fund overview

# Palisade's Australian Social Infrastructure Fund (PASIF)

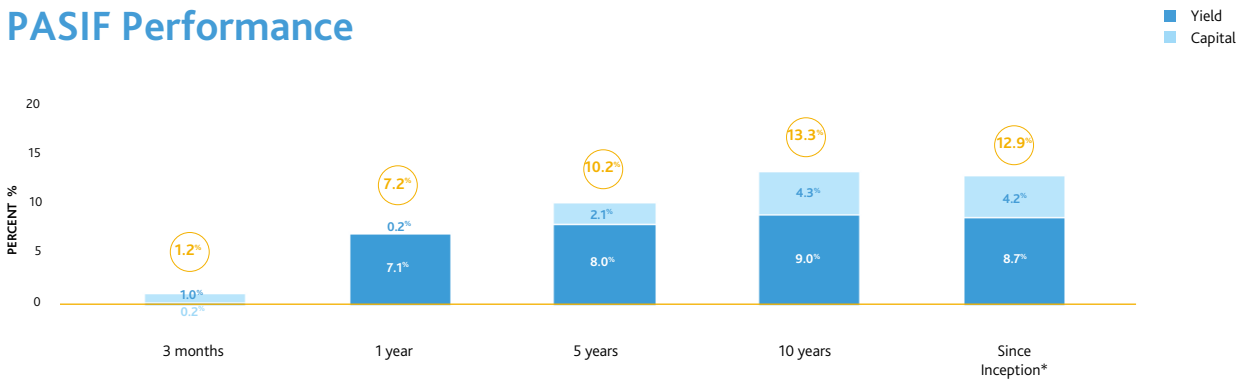
PASIF provides investors with an opportunity to invest in a portfolio of social infrastructure assets procured under the public private partnership delivery model with government bodies and aims to provide investors with low volatility and inflation-linked government revenue streams.



## PASIF Q3 FY22 Key Highlights

- Stage 3 of Gold Coast Light Rail achieved financial close on 30 March 2022, which will deliver a 6.7km extension south of the existing network with eight new stations, five additional light rail vehicles, new bus and light rail connections at Burleigh and Miami, and an upgrade of the existing depot and stabling facilities.

## PASIF Performance



Gross Performance as at 31 March 2022

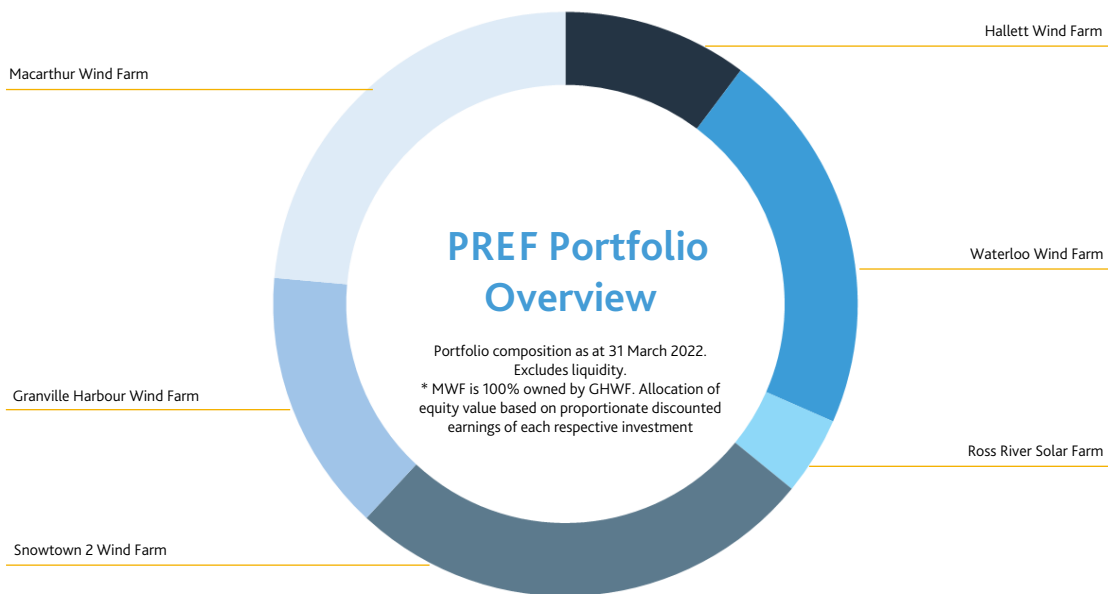
Returns for periods greater than 12 months have been annualised

\* Inception date May 2011

## Fund overview

# Palisade's Renewable Energy Fund (PREF)

PREF provides investors with an opportunity to invest in a portfolio of renewable energy assets including utility scale wind and solar farms in Australia and aims to provide investors with long-term capital growth and stable cash distributions.

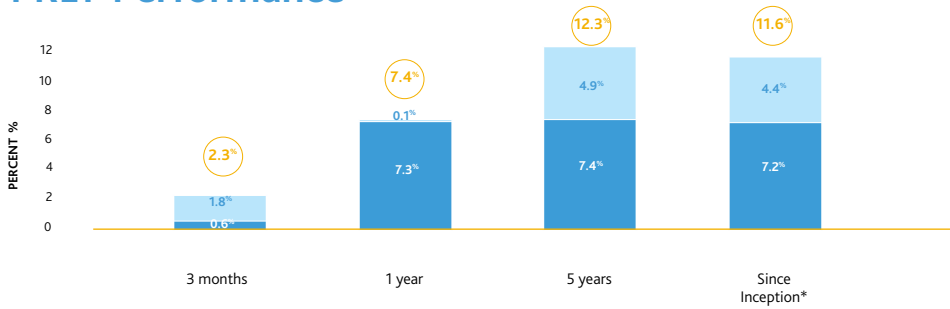


## PREF Q3 FY22 Key Highlights

- Strong performance from South Australian wind farms (Waterloo and Snowtown 2) due to strong winds and improvements in constraints following the installation of synchronous condensers by Electranet which increase the amount of allowable wind generation in SA.
- Financial close was reached on the previously announced Macarthur Wind Farm, a 420MW operating wind farm located in south-western Victoria with a Power Purchase Agreement with AGL until 2038.

## PREF Performance

■ Yield  
■ Capital



Gross performance as at 31 March 2022

Returns for periods greater than 12 months have been annualised

\* Inception date September 2016





## FOR MORE INFORMATION CONTACT US

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