First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | September 2020

Market review

Global Listed Infrastructure held up relatively well in September as global equities' recent momentum faltered. The FTSE Global Core Infrastructure 50/50 index decreased -1.2% in September, while the MSCI World index^ ended the month -3.4% lower.

The best performing infrastructure sectors included Multi-Utilities (+2%) and Electric Utilities (+1%) as investors rotated towards stable, lower beta assets. Toll Roads (+2%) also gained, helped by improving traffic volumes for Asia-Pacific operators.

The worst performing infrastructure sector was Pipelines (-7%), which lagged on a growing awareness of the longer term structural challenges facing fossil fuel demand (decarbonisation and renewables growth, electric vehicles rollout, potential competition from hydrogen). During the month, California's Governor signed an order that would prohibit the sale of diesel and petrol passenger cars in the state by 2035; and China committed to a 2060 net zero carbon emissions target.

The best performing infrastructure regions were the United Kingdom (+4%), where utilities were buoyed by the prospect of more favourable regulatory outcomes than previously anticipated; and Australia / New Zealand (+4%), whose roads and airports gained on an improving coronavirus situation. The worst performing infrastructure region was Latin America (-4%), reflecting underperformance from Brazil's broader market.

Fund performance

The Fund returned -3.0% after fees[1] in September, 183 basis points behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Auckland International Airport (+10%), which climbed steadily as domestic airline services resumed, and a trans-Tasman travel bubble between Australia and New Zealand appeared increasingly likely. ASUR (+4%), whose assets include Cancún International Airport (Mexico's second busiest), was supported by a continued improvement in passenger numbers. However, Spain's AENA (-5%) and Flughafen Zurich (-7%) gave up some of the previous month's gains as European coronavirus case numbers increased.

Cumulative performance in USD (%)[2]

	3 mths	YTD	1 yr	3 yrs	5 yrs	Since inception
Class I (USD - H Dist)	0.5	- 11.3	- 9.0	1.3	35.3	72.1
Benchmark*	2.0	- 11.5	- 8.3	8.1	40.1	76.6

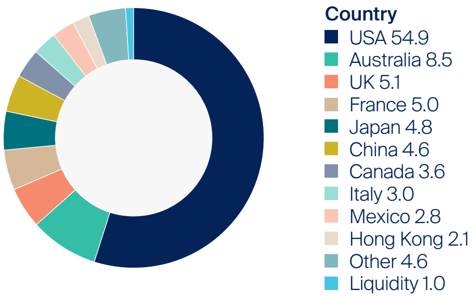
Calendar year performance in USD (%)[2]

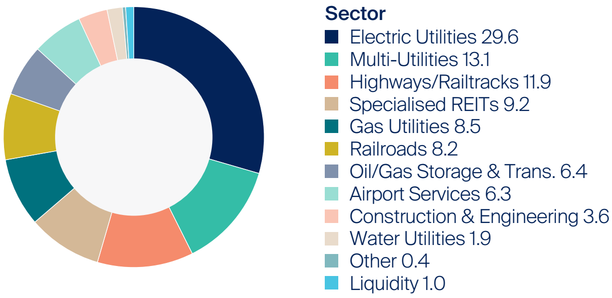
	2019	2018	2017	2016	2015
Class I (USD - H Dist)	24.3	- 8.3	17.2	11.7	-5.7
Benchmark*	25.1	- 4.0	18.4	11.3	-6.0

Performance is based on First Sentier Global Listed Infrastructure Fund Class I (USD – H Dist). This is the semi-annually dividend distribution class of the Fund. The performance quoted are based on USD total return (with dividend reinvested). Dividends are not guaranteed and may be paid out of capital.
* The benchmark displayed is UBS Global Infrastructure & Utilities 50-50 Index until 31 March 2015 and FTSE Global Core Infrastructure 50/50 Index from 1 April 2015 onwards. Gross of tax benchmark performance is shown before 1 July 2016 and net of tax benchmark performance is shown after the aforementioned date.
1 Source: First Sentier Investors & Bloomberg, the First Sentier Global Listed Infrastructure's cumulative return over one month, data as of 30 September 2020.
^ MSCI World Net Total Return Index, USD
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.
This Fund is a sub fund of Ireland domiciled First Sentier Investors Global Umbrella Fund Plc.

- The Fund invests primarily in global listed infrastructure and infrastructure-related equity or equity related securities worldwide. Investments in infrastructure projects may involve risks including projects not being completed on time and within budget, changes in environment laws and regulations.
- The Fund's investments may be concentrated in a single and limited/specialist sector or in fast growing economies which may have higher volatility or greater loss of capital than more diversified portfolios.
- Small/ mid-capitalisation securities may have lower liquidity and their prices are more volatile to adverse economic developments.
- The Fund may use FDIs for hedging and efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks.
- For certain share classes, the Fund may at its discretion pay dividend out of capital or pay fees and expenses out of capital to increase distributable income and effectively a distribution out of capital. This amounts to a return or withdrawal of your original investment or from any capital gains attributable to that, and may result in an immediate decrease of NAV per share.
- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

Asset allocation (%)[2]





Top 10 holdings (%)[2]

Stock Name	Sector	%
Transurban	(Highways/Railtracks)	7.1
Nextera Energy Inc	(Electric Utilities)	6.2
Dominion Energy Inc COM	(Multi-Utilities)	4.9
Eversource Energy	(Electric Utilities)	3.8
SBA Communications Corp Class A	(Specialised REITs)	3.5
American Tower Corporation	(Specialised REITs)	3.3
CenterPoint Energy, Inc.	(Multi-Utilities)	2.9
American Electric Power Company, Inc.	(Electric Utilities)	2.8
Xcel Energy Inc.	(Electric Utilities)	2.6
Emera Inc	(Electric Utilities)	2.6

Toll road operators also delivered mixed returns. Transurban (+5%) gained on the view that Melbourne (whose road networks account for around a third of the company's earnings) may be able to ease its coronavirus restrictions sooner than expected. Investors were drawn to the secure 6% dividend yield offered by Jiangsu Expressway (+1%), whose toll road revenues have now largely recovered to pre-coronavirus levels. Despite road traffic being relatively more resilient than other transport modes during the pandemic, Eiffage (-10%) and Vinci (-9%) underperformed due to a spike in coronavirus case numbers in Europe.

Demand for defensive, income-generative assets helped UK multi-utility National Grid (+6%) and water utility Severn Trent (+5%) to outperform. UK utilities were further buoyed by news that the Competition and Markets Authority had determined that the allowed returns of four unlisted water companies were too low. Although unlikely to affect Severn Trent, the decision bodes well for upcoming regulatory decisions for National Grid, and for peer SSE (-4%) which rallied after the end of the month.

Mobile tower stocks SBA Communications (+4%) and Crown Castle (+3%) performed relatively well as investors anticipated robust September quarter earnings. American Tower (-3%) lagged in comparison, despite announcing a new 15 year agreement with T-Mobile, one of its main customers. The move should provide visibility over leasing revenue growth, and reinforces the essential nature of mobile towers over the long term.

The worst performing stocks in the portfolio included energy infrastructure names Cheniere (-11%), Enterprise Products Partners (-10%) and Magellan Midstream Partners (-10%). In the absence of material stock-specific news, these moves appear to reflect investor concerns about the structural headwinds facing the sector (noted earlier). Gas utility Rubis (-13%), which owns and operates a range of specialist energy storage and distribution assets, was affected by similar concerns. We believe that contracted and regulated business models, and the still-vital nature of the services provided by these companies' unique or hard-to-replicate assets, will remain supportive of earnings and valuations.

US Pacific Northwest utilities represented another area of weakness in the portfolio. Multi-utility Avista (-7%) and electric utility Portland General Electric (-6%) fell sharply after wildfires broke out in their respective Washington and Oregon service territories, before recovering some ground as it became clear that high winds rather than utility equipment or maintenance activities had caused the fires. Unlike California, these states' regulatory frameworks allow utilities to recover wildfire-related costs unless found negligent.

Fund activity

Italian-listed tower operator INWIT was added to the Fund. INWIT was established in 2015 when Telecom Italia, Italy's incumbent telecom company, spun off its high quality tower portfolio as a stand-alone business. In March 2020 it merged with Vodafone's Italian tower portfolio, creating Europe's second largest listed tower company with over 22,000 towers. The company is now positioned to benefit from mobile towers' long term structural growth tailwinds, as Telecom Italia and Vodafone build out 5G and small cell networks in Italy.

A position was initiated in Chinese water utility Guangdong Investments, whose core business supplies water to customers in Hong Kong and the Guangdong Province cities of Shenzhen and Dongguan. The company has a strong balance sheet, is run by an experienced management team, and pays a dividend yield of almost 5%. Concession agreements that run until at least 2030 provide clear earnings visibility, while a lack of alternative water supplies for Hong Kong give the company effective pricing power. Low debt levels and strong recurring cash flows should enable the company to grow further by acquiring additional water projects throughout China.

Performance is based on First Sentier Global Listed Infrastructure Fund Class I (USD – H Dist).
2 Source: Lipper & First Sentier Investors, Nav-Nav (USD total return) as at 30 September 2020. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. Fund inception date: 27 June 2008.

Market outlook and fund positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, railroads, utilities, pipelines, and wireless towers. These sectors share common characteristics, like barriers to entry and pricing power, which can provide investors with inflation-protected income and strong capital growth over the medium-term.

The portfolio remains positioned with toll roads as its largest sector overweight. Valuation multiples still imply multi-year traffic declines, in contrast to the improvements that toll road companies referenced in recent quarterly earnings updates. While increased flexibility to work-from-home may result in adjustments to traffic, we see clear evidence that people prefer to travel by private car than by public transport in order to maintain social distancing.

The portfolio's overweight exposure to gas utilities consists of specialist North American and European companies operating in niche market areas; a Japanese operator with a strong balance sheet trading at undemanding valuation multiples; and Chinese gas utilities which are positioned to benefit from a structural shift from coal to cleaner energy sources, in a region that has so far coped well with the coronavirus outbreak.

The Fund now has a roughly neutral exposure to Multi/Electric utilities, where steady share price gains have reduced some of the mispricing previously seen in this sector. Utilities still represent a substantial part of the portfolio in absolute terms. Regulated utility earnings should be materially more resilient than those of the broader market in the event of an extended economic slowdown or recession; and low interest rates will be supportive of valuation multiples.

We remain cautious on the Airports sector. A sustained recovery in airline passenger numbers appears a remote prospect for many airports, given traveller wariness and persistently high coronavirus case numbers. A staggered re-opening of airports appears likely to start with domestic or regional flights, which are less valuable than international flights. The silver lining is that many airports' regulated assets are now under-earning their allowed returns, giving scope for future regulatory terms to be more generous than previously expected.

Source : Company data, First Sentier Investors, as of end of September 2020