First Sentier Global Listed Infrastructure Fund Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | September 2021

Market review

Global Listed Infrastructure dipped in September as higher energy prices, US political uncertainty and China's Evergrande debt crisis weighed on financial markets. The FTSE Global Core Infrastructure 50/50 index returned -3.7%, while the MSCI World index^ ended the month -4.2% lower.

The best performing infrastructure sector was Airports (+6%), on US plans to ease pandemic-related restrictions in November for air travellers from 33 countries including China, India, Brazil and most of Europe. Pipelines (+5%) gained on the view that strong energy prices would prove supportive of the growth outlook for these companies.

The worst performing infrastructure sector was Towers / Data Centres (-9%) which were affected by rising bond yields, and as investors took profits following several months of strong performance. Utilities (-4% to -6%) underperformed owing to higher bond yields; a spike in natural gas prices which triggered concerns for rising input costs; and the threat of political interference in European power markets.

The best performing infrastructure region was Japan (+4%), where a coronavirus state of emergency was lifted at the end of the month. The worst performing infrastructure region was the United States (-6%) as its politicians debated raising the country's debt ceiling, and continued to negotiate President Biden's infrastructure stimulus initiatives.

Fund performance

The Fund returned -4.0% after fees[1] in September, 31 basis points behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Cumulative performance in USD (%)[2]

	3 mths	YTD	1 yr	3 yrs	5 yrs	Since inception
Class I (USD - H Dist)	-1.0	6.1	15.4	24.5	32.0	98.6
Benchmark*	-0.2	6.8	15.9	24.9	40.4	104.6

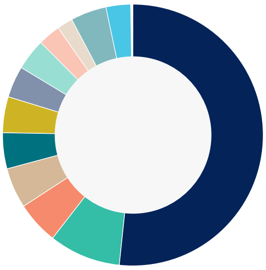
Calendar year performance in USD (%)[2]

	2020	2019	2018	2017	2016
Class I (USD - H Dist)	-3.5	24.3	-8.3	17.2	11.7
Benchmark*	-4.1	25.1	-4.0	18.4	11.3

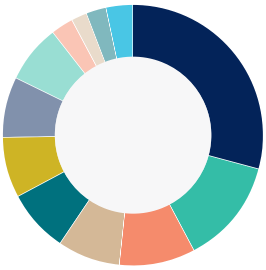
Performance is based on First Sentier Global Listed Infrastructure Fund Class I (USD – H Dist). This is the semi-annually dividend distribution class of the Fund. The performance quoted are based on USD total return (with dividend reinvested). Dividends are not guaranteed and may be paid out of capital.
* 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 2021.
^ 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]



Country
- USA 51.9
- Australia 8.8
- China 5.2
- Canada 5.1
- France 4.5
- Spain 4.4
- Italy 4.0
- UK 3.9
- Mexico 2.7
- Switzerland 2.0
- Other 4.5
- Liquidity 3.1



Sector
- Electric Utilities 29.3
- Highways/Railtracks 13.1
- Specialised REITs 9.2
- Multi-Utilities 7.8
- Railroads 7.7
- Gas Utilities 7.6
- Oil/Gas Storage & Trans. 7.4
- Airport Services 7.4
- Water Utilities 2.7
- Construction & Engineering 2.0
- Other 2.5
- Liquidity 3.1

Top 10 holdings (%)[2]

Stock Name	Sector	%
Transurban	(Highways/Railtracks)	6.2
Nextera Energy Inc	(Electric Utilities)	5.9
American Tower Corporation	(Specialised REITs)	5.2
Dominion Energy Inc COM	(Multi-Utilities)	4.9
Aena SA	(Airport Services)	3.9
SBA Communications Corp Class A	(Specialised REITs)	3.3
Xcel Energy Inc.	(Electric Utilities)	3.0
Cheniere Energy, Inc.	(Oil/Gas Storage & Trans.)	2.7
CSX Corporation	(Railroads)	2.6
Pembina Pipeline Corporation	(Oil/Gas Storage & Trans.)	2.6

The best performing stock in the portfolio was US Liquefied Natural Gas (LNG) producer and exporter Cheniere (+12%). The company, which owns and operates substantial LNG liquefaction facilities in Southwest Louisiana and South Texas, announced a US$10 billion capital allocation plan. Key points included initiating a quarterly dividend payment, resuming its share buyback program, reducing debt, and investing in further organic growth opportunities. High global demand for natural gas also buoyed sentiment towards the stock.

Pembina Pipeline (+5%), which operates a well-integrated portfolio of energy transportation and storage assets in Western Canada, made up ground after August's share price declines. In contrast, Enterprise Products Partners (-3%) lagged peers. The company owns extensive US energy pipeline networks, storage capacity and export facilities and trades on attractive valuation multiples, but investors remained underwhelmed by the absence of additional capital management initiatives.

The portfolio's airport holdings performed well. Spanish-listed AENA (+10%), the world's leading airport operator by number of passengers, and Flughafen Zurich (+10%), which owns and operates Switzerland's largest airport, were both supported by the prospect of traffic recovery over coming months. Passenger volumes for Mexican peer ASUR (+9%) have already returned to pre-pandemic levels. Cancun International Airport, the company's largest asset, could see further growth as it continues to benefit from pent-up demand for leisure travel from the US and Canada.

The portfolio's US electric utility holdings were affected by concerns that higher input costs would put upward pressure on customer bills, potentially leading to downward pressure on future rate base growth. The worst performing stock in the portfolio was US electric utility Entergy (-10%), as slow progress in restoring power to its Louisiana-centric service territory following damage from August's Hurricane Ida weighed on sentiment towards the stock. Other large-cap US electric utilities including Eversource Energy (-9%) and Xcel Energy (-8%) also underperformed in this environment.

US tower operators American Tower (-9%) and SBA Communication (-8%) declined after a sustained period of outperformance. This appears to reflect a general rotation towards sectors with more exposure to post-pandemic reopening, rather than stock-specific factors. CyrusOne (+1%), which owns strategically located data centres in the US and is building a presence in key European markets, ticked higher on rumours that it was exploring strategic alternatives, including a potential sale of the company.

Fund activity

The Fund initiated a position in Iberdrola, a large cap, Spanish-listed electric utility with extensive regulated network assets in Spain and Portugal, the US, the UK, and Latin America. The company is also the second largest owner of renewable generation assets globally [after US peer and fellow portfolio holding NextEra Energy]. Political interference in the Spanish electricity market (a proposed claw back of generation profits) as energy prices increased saw Iberdrola sell off sharply in September, creating an attractive entry point.

Passenger rail operator West Japan Railway, whose network service area includes the Kansai region, the cultural centre of Japan, was also added to the Fund. The country's recently-lifted state of emergency had reduced domestic travel volumes and weighed on the passenger rail sector. As the country's large-scale vaccine rollout continues, West Japan Railway should be among the companies that benefit most from the country's gradual reopening and return to economic normality.

The Fund divested its holding in Magellan Midstream Partners, which owns and operates refined product (gasoline and diesel) and crude oil pipeline networks in the US Midwest. The stock was sold after the prospect of a US economic recovery drove strong share price gains; and on concerns for its longer term growth prospects as the global energy transition drives a shift in demand from conventional to electric vehicles.

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 2021. 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.

Toll roads represent the portfolio's largest sector overweight, via positions in European, Asia Pacific and Latin American operators. We believe these companies represent exceptional value at current levels, with traffic volumes proving significantly more resilient than those of other transport infrastructure assets. While new coronavirus variants have clouded the near term outlook, we remain confident that toll roads will lead a return to normal demand levels as economic activity levels pick up.

The portfolio is overweight Gas Utilities, which we believe have an important role to play in the years ahead as economies transition to lower carbon energy sources. The portfolio's holdings in this sector consist of a Chinese operator benefitting from central government support for the country's transition away from coal; a defensive Japanese gas utility trading at deep value, and specialist US and European names operating from strong strategic positions within niche markets.

The portfolio is underweight Electric / Multi-Utilities. While these companies represent a large segment of the global listed infrastructure universe, and are a good source of yield and defence, some are trading at levels where limited mispricing is evident. That said, a substantial portion of the portfolio still consists of high conviction utility holdings. The portfolio's focus is on companies with the scope to derive steady, low risk earnings growth from rate base investment (replacing ageing distribution networks, upgrading substations, expanding transmission lines); and the replacement of older coal-fired power stations with wind farms and solar power.

The portfolio is also underweight the Airports sector. It remains to be seen how quickly consumer behaviour will return to normal, while business travel may never regain previous levels. The portfolio's exposure is focused primarily on higher quality European operators such as Spain's AENA whose passenger mix is tilted towards Leisure and VFR (visiting friends and relatives) travellers. These categories could see numbers rebound sharply as travel restrictions are lifted.

Source : Company data, First Sentier Investors, as of 30 September 2021.