First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | January 2023

Market review

Global Listed Infrastructure increased in January, aided by further indications that inflation may have peaked, and by better-than-expected US GDP growth in the December quarter. The FTSE Global Core Infrastructure 50/50 index rose +2.6% while the MSCI World index^ ended the month +7.1% higher.

The best performing infrastructure sector was Airports (11%), which rose on a robust outlook for passenger volumes. Towers / Data Centres (+8%) climbed on hopes that the pace of US and European interest rate rises may begin to ease.

Fraud allegations at Indian conglomerate Adani Group saw the share price of its listed subsidiaries fall sharply, including Adani Ports (-25%, not in our focus list). This contributed to underperformance from the Other (-3%) sector which includes lower quality assets like ports, satellites and merchant power. Railroads (-1%) lagged as higher costs and persistent labour shortages weighed on North American freight rail; while Japanese passenger rail stocks were affected by a slower than expected recovery in passenger numbers.

The best performing infrastructure region was Europe ex-UK (+13%), aided by strong gains for its airports and toll roads. The worst performing infrastructure region was Asia ex-Japan (-1%), owing primarily to sharp falls by Adani-related stocks.

Fund performance

The Fund returned +2.2% after fees in January, -41bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Spanish airport operator AENA (+17%), which rallied as capacity improvements in airlines' Easter and summer 2023 holiday seasons and upbeat airline commentary indicated a positive outlook for passenger volumes. Swiss peer Flughafen Zurich (+16%) was also propelled higher by evidence that pent-up demand for travel remained strong. ASUR (+12%) gained as passenger volumes at its Mexican airports continued to exceed pre-pandemic levels.

Gains in the toll roads sector were led by Mexico's PINFRA (+14%) which advanced as investors were drawn to its high quality assets, conservatively managed (net cash) balance sheet and appealing valuation multiples. French-listed infrastructure concessions and construction company Vinci (+11%) was supported by a favourable outlook for its construction segment. Vinci, which operates a network of French motorways as well as a substantial airports segment, also noted that its Asian airports should benefit from the easing of Chinese travel restrictions. Brazil's CCR (+9%) gained as investors identified value, following recent underperformance owing to concerns about the spending plans of the country's new left wing government. Jiangsu Expressway (+8%) rose as its management team noted healthy traffic volumes for the Shanghai-Nanjing Expressway, the company's largest asset, following the lifting of China's covid restrictions late last year. Transurban (+6%), which operates toll roads in Australia and North America, increased on the view that it would benefit from normalising traffic volumes, and from the inflation-linked tolls that apply to many of its assets.

The worst performing stock in the portfolio was US utility and leading renewables developer NextEra Energy (-11%), owing to disappointing December quarter earnings numbers and the unexpected retirement of the veteran CEO of its Florida utility business. An underweight position in this stock, relative to the benchmark index, limited the impact

^ MSCI World Net Total Return Index (USD) is provided for information purposes only. Index returns are net of tax. Data to 31 January 2023. Source: First Sentier Investors / Lipper IM. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

- The Fund invests primarily in global listed infrastructure and infrastructure-related equity securities 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. The Fund may also expose to RMB currency and conversion risk.
- 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.

to portfolio performance. Having performed well during 2022's volatile market conditions, other US utility holdings including Entergy (-4%), Exelon (-2%), FirstEnergy (-2%) and Xcel Energy (-2%) also lagged. In the current bullish mood, these declines appear less driven by stock specific factors and more by a near-term rotation away from defensive assets.

West coast US freight rail operator Union Pacific (-1%) underperformed after announcing lower than expected December quarter earnings numbers. Higher costs, labour shortages and adverse winter weather represented headwinds during the period. East coast peer CSX Corp (flat) also lagged despite improvements to network fluidity (trains moving faster, average dwell time declining); and December quarter earnings coming in slightly ahead of expectations.

Fund activity

A position was initiated in Altagas, a mid-cap Canadian-listed infrastructure company whose assets include high growth US natural gas utilities, and strategically located energy midstream assets in Western Canada. Concerns for high leverage have weighed on the company's share price in recent months as interest rates have risen. The company's management team is committed to addressing this issue by selling non-core assets; we expect valuation multiples to improve as this process is carried out. In the longer term, Altagas may split itself into two segments, realising further value by lifting the conglomerate discount that currently applies.

A holding in US utility Sempra Energy, whose assets include substantial US LNG export facilities on the US Gulf Coast, was sold after strong share price gains since the position was established in late 2021. The company has been a beneficiary of increased global demand for US energy exports over the past year. Smaller peer Avista was divested after the company announced it had secured additional borrowing facilities, to help it meet obligations related to sharp increases in natural gas and power prices.

Market outlook and fund positioning

The Fund invests in a range of listed infrastructure assets including toll roads, airports, railroads, utilities and renewables, energy midstream, wireless towers and data centres. 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 outlook for the asset class is positive. Balance sheets and dividend payout levels are generally healthy, and appear well placed to weather a deteriorating economic backdrop. We are conscious of potential headwinds in the form of higher debt costs, and increased regulatory and political risks. Overall however, earnings from this space are expected to be more resilient than those of global equities, owing to the essential service nature of these businesses, and the regulated / contracted frameworks that they typically operate within.

Public policy support for infrastructure investment remains strong globally, particularly for the replacement of aged infrastructure assets and the buildout of renewables. Utilities are in the midst of a multi-decade structural growth story. Decarbonisation, electrification and resiliency spend represent large and growing investment opportunities for these companies. These investments drive utilities' rate base growth, leading in turn to earnings growth.

Transport infrastructure is benefitting from a recovery in volumes as travellers return to the air; and as the return-to-office trend ramps up. For many toll roads, the high inflation of 2022 will translate into toll uplifts over coming quarters, supporting healthy earnings growth.

Source : Company data, First Sentier Investors, as of 31 January 2023.

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than the base currency of the share class, the return may increase or decrease as a result of currency fluctuations. Performance data calculated since the launch date. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management and administration fee) and other costs charged to the fund (e.g. transaction and custody costs), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. First Sentier Global Listed Infrastructure Fund, Class I (Distributing) USD shares. Benchmark is the FTSE Global Core Infra 50/50 TR Index from 1 April 2015, prev. UBS Global Infra & Utilities 50/50 TR Index.