First Sentier Global Listed Infrastructure Fund Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | September 2023

Market review

Global Listed Infrastructure fell in September as persistent concerns for higher bond yields weighed on financial markets. The FTSE Global Core Infrastructure 50/50 index returned -4.7% while the MSCI World index^ ended the month -4.3% lower.

Energy Midstream (-2%) held up relatively well, supported by a rising oil price and a positive demand outlook for energy storage and transportation services. The worst performing infrastructure sector was the interest rate-sensitive Towers / DCs (-8%) sector, which came under pressure as the US 10-year treasury yield increased from 4.1% to 4.6% during the month.

The best performing infrastructure region was Japan (+1%) as the country's passenger rail companies continued to report favourable demand / passenger volume trends. The worst performing infrastructure region was the United States (-5%), reflecting underperformance from its large cap utility and tower stocks.

Fund performance

The Fund returned -5.0% after fees in September, -34bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was ENN Energy (+6%), which distributes natural gas in China. The stock recovered some ground as investors took the view that the market had overreacted to disappointing June quarter earnings, announced last month. Better than expected retail sales and industrial production data for China in August imply an improving outlook for gas demand within the country.

In the energy midstream space, DT Midstream (+3%) gained on the appeal of its well-run natural gas storage and transportation networks. Its assets connect the Appalachian and Haynesville basins to gas utilities and Liquefied Natural Gas (LNG) export facilities on the US Gulf Coast. US LNG exporter Cheniere Energy (+2%) increased as investors were drawn to the company's market leading position, contracted earnings streams and continued strong global demand for LNG. Natural Gas Liquids-focused Targa Resources (-1%) dipped slightly as investors took profits following strong share price gains in July and August. The company recently reiterated positive operating conditions for its operations across Texas' Permian basin.

Toll roads delivered mixed returns. Brazil's largest toll road operator CCR (+3%) gained on the view that healthy traffic volumes in July and August were likely to support robust September quarter earnings. French infrastructure construction and concession company Vinci (+2%) noted strong demand and robust margins within its construction segment. Traffic / passenger volumes for its toll roads and airports are tracking close to 2019 levels. Jiangsu Expressway (flat) held up well on positive traffic trends. In our recent call with their management team, the company expressed the view that Jiangsu province was performing well compared to the broader Chinese economy, providing a tailwind to traffic volumes on its roads. However, higher bond yields weighed on Australian-listed Atlas Arteria (-6%) and Transurban (-4%). A decision by the Australian Competition and Consumer Commission to oppose Transurban's proposed acquisition of Melbourne's EastLink toll road also weighed on sentiment towards that stock.

The worst performing stock in the portfolio was US utility and renewables company NextEra Energy (-14%), which fell after dividend growth expectations for its renewables-focused subsidiary NextEra Energy Partners (NEP) were revised lower. Higher borrowing costs are making it more challenging for NEP to fund its renewables projects.

^ MSCI World Net Total Return Index (USD) is provided for information purposes only. Index returns are net of tax. Data to 30 September 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.

Other underperformers in this space included Dominion Energy (-8%), as investors maintained a cautious view of the stock ahead of the anticipated outcome of its strategic business review. During the month, Dominion sold its natural gas distribution business to Canadian energy midstream company Enbridge Inc. (-5%, not held) for US$14 billion. Midwest utility Evergy (-8%) also lagged following regulatory headwinds for its Kansas utility business. Better-performing US utilities included Xcel Energy (+1%) on the view that larger than expected investment plans for its Colorado utility, announced this month, could lead to additional EPS growth. Under its proposals, the Colorado business will exit coal by the end of 2030, while its solar and wind generation assets will approximately double from 2022 levels.

Bond yield-sensitive mobile towers also underperformed in September. American Tower (-9%) and Crown Castle (-7%) both fell despite a lack of material stock specific news, as the market adjusted to the prospect of a higher rate environment. There are also concerns that easing network investment levels by mobile phone companies in 2023-4, following the bring-forward of investment during the pandemic, may also represent a headwind to these stocks.

Fund activity

No new stocks were added to the portfolio during the month, and positions in existing holdings were generally maintained at current levels.

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.

Having held up well in 2022 against a backdrop of falling global equities, global listed infrastructure has underperformed during 2023. This appears to be primarily a reflection of macro factors; rising interest rates have weighed on infrastructure valuations, while inflation (which listed infrastructure assets can typically pass through to the end user) has subsided.

Performance in 2023 also reflects some more sector-specific headwinds. While passenger / traffic volumes for transport infrastructure have recovered to pre-pandemic levels in most cases, airports have yet to see a full recovery in Chinese overseas passengers, and business travel remains below 2019 levels. Toll roads face regulatory challenges in France and Australia, with a tax on concessions (toll roads, airports) being proposed in France, and Australia's competition authority opposing Transurban's proposed acquisition of EastLink. Towers have flagged the prospect of lower growth as telecom companies (towers' main customers) ease back on their mobile network investment plans.

However, the fundamentals of infrastructure have not changed. Infrastructure companies are still delivering essential services to millions of people every day, generating stable and predictable earnings via regulated or contracted frameworks. The theses for a number of long term, structural growth drivers remain largely intact.

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