First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | February 2021

Market review

Global Listed Infrastructure delivered mixed returns in February as mounting hopes of an economic recovery, along with concerns for rising inflation, pushed bond yields higher.

The best performing infrastructure sectors were Airports (+8%) and Railroads (+7%), as investors anticipated a medium term return to normalised passenger volumes. The worst performing infrastructure sectors were Water / Waste (-7%) and Electric / Multi-Utilities (-5%), as investors favoured higher beta sectors. Volatility in the Texas energy market, caused by unusually cold weather, also weighed on some North American utility businesses.

The best performing infrastructure regions were Asia ex-Japan (+9%) and Europe ex-UK (+8%), with transport infrastructure leading the gains. The worst performing infrastructure region was the utilities-focused United Kingdom (-5%).

Fund performance

The Fund returned +0.8% after fees in February[1], 146 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was Mexican airport operator ASUR (+21%), which rallied on the view that demand for leisure travel would rebound strongly as the coronavirus vaccine rollout progressed. Key assets for the company include the airport at the US tourist destination of Cancun. Robust December quarter earnings numbers illustrated disciplined cost control, while passenger numbers continued to recover from last year's lows.

European peer AENA (+11%), which operates a portfolio of 46 Spanish airports including Madrid-Barajas and Barcelona, the country's two largest hubs, also delivered strong returns. Owing to its airports' locations, AENA's passenger mix is tilted towards Leisure and VFR (visiting friends and relatives) travellers. Both categories could see numbers rebound sharply as travel restrictions are lifted. Gains for Flughafen Zurich (+9%) reflected its valuable property/retail assets, improving regulatory environment and prudently managed balance sheet, as well as the resilient Swiss economy.

European toll road operators fared well. Atlantia (+18%) increased after the appointment of technocrat Mario Draghi as Italy's Prime Minister led to hopes that ongoing negotiations to sell ASPI, Atlantia's Italian motorway network, may soon reach a rational conclusion. French peers Eiffage (+14%) and Vinci (+12%) announced better than expected earnings numbers for the December quarter, highlighting the resilience of their integrated concession-contracting model. Their contracting businesses have largely returned to pre-pandemic activity levels and margins, despite various lockdowns curtailing traffic for roads and airports.

Passenger rail stocks West Japan Railway (+17%) and East Japan Railway (+14%) also delivered strong gains, despite an extension of the coronavirus-related State of Emergency for areas including Tokyo and Osaka; and a 7.1 magnitude earthquake temporarily disrupting operations in EJR's service territory. Investors focused instead on Japan's lower daily coronavirus case numbers, and upbeat commentary from EJR on the expected pace of passenger recovery over the medium term.

The worst performing stock in the portfolio was UK electric utility SSE (-11%), owing to higher bond yields and cooling market sentiment towards renewables. SSE Renewables, the group's green energy arm, plans to build wind farms in continental Europe, the US and Japan over the next decade. US electric utilities including Eversource Energy (-9%), NextEra Energy (-9%) and Xcel Energy (-8%) also underperformed in this environment.

Freezing temperatures affected some utilities' Texas operations. Exelon (-7%) noted that three of its gas-fired power plants in Texas failed to perform during the recent cold weather, which will have a financial impact for the company. CenterPoint Energy (-7%), which provides electricity to the Houston area, lagged on the view that input costs are likely to have spiked in February. The company's regulated business model means that it should be able to recover those costs from customers, over time.

Better performers in the utilities space included China Gas (+14%), which rallied on investor enthusiasm for the company's ambitious growth targets. Natural gas is expected to play an important role in the reduction of coal consumption in China's upcoming Five Year Plan. Regulated US utility FirstEnergy (+9%) also rallied after it was revealed that activist investor Carl Icahn, who has a successful track record of encouraging company management teams to implement shareholder-friendly measures, was planning to acquire a stake in the company.

[1] First Sentier Global Listed Infrastructure Fund's cumulative return over one month. The performance of the fund is based on the Singapore unit trust, net of fees, expressed in SGD terms.
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

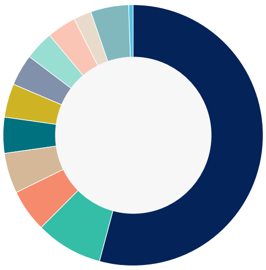
Annualised performance in SGD (%)[2]

	1 yr	3 yrs	5 yrs	10 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-2.6	5.2	5.8	6.8	4.0
Class A (SGD - H Dist) (Inc initial charges)	-7.4	3.4	4.7	6.3	3.6
Benchmark*	-3.8	6.8	7.5	8.0	4.5

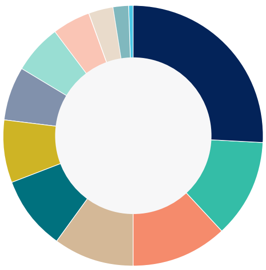
Cumulative performance in SGD (%)[2]

	3 mths	1 yr	3 yrs	5 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-1.5	-2.6	16.5	32.6	66.8
Class A (SGD - H Dist) (Inc initial charges)	-6.5	-7.4	10.7	25.9	58.5
Benchmark*	-2.0	-3.8	21.8	43.5	76.8

Asset allocation (%)[2]



Country
- USA 54.3
- Australia 8.3
- France 5.4
- China 4.8
- Canada 4.6
- UK 4.0
- Japan 3.9
- Italy 3.8
- Spain 3.4
- Switzerland 2.3
- Other 4.7
- Liquidity 0.5



Sector
- Electric Utilities 26.1
- Highways/Railtracks 12.1
- Multi-Utilities 11.8
- Specialised REITs 10.0
- Railroads 9.4
- Oil/Gas Storage & Trans. 7.7
- Airport Service 6.6
- Gas Utilities 6.1
- Water Utilities 4.7
- Construction & Engineering 3.2
- Other 1.8
- Liquidity 0.5

Top 10 holdings (%)[2]

Stock Name	Sector	%
American Tower Corporation	(Specialised REITs)	6.2
Transurban	(Highways/Railtracks)	6.2
Dominion Energy Inc COM	(Multi-Utilities)	4.8
Nextera Energy Inc	(Electric Utilities)	4.7
SBA Communications Corp Class A	(Specialised REITs)	3.8
Aena SA	(Airport Services)	3.4
Eversource Energy	(Electric Utilities)	2.8
Norfolk Southern Corporation	(Railroads)	2.6
Emera Inc	(Electric Utilities)	2.6
CenterPoint Energy, Inc	(Multi-Utilities)	2.5

Fund activity

The Fund initiated a position in Republic Services, the second largest waste company in the US. Run by an experienced and highly regarded management team, the company's essential service operations are focused primarily in the Midwest. It owns its landfill sites, giving it a vertically integrated structure with high barriers to entry. The company also has strong pricing power; over half of its revenues are linked to inflation, and its contracts typically feature escalators (automatic price increases) of over 3% per annum. A pullback in its share price since mid-November provided us with an attractive entry point for this company's stable, low risk cash flows.

Brazil's largest toll road operator CCR was also added to the portfolio. Share price underperformance over the past year appears less related to company fundamentals (road traffic volumes have been resilient) than a reaction to Brazil's elevated political / country risk (high coronavirus case numbers / the recent appointment of a retired army general to head the state-run oil firm Petrobras). With vaccines now being distributed, country risk concerns should ease in the medium term – to the benefit of CCR's valuation multiples.

US tower operator Crown Castle was divested following strong gains over the portfolio's holding period. Exposure to the towers' structural growth theme has been maintained via the portfolio's substantial holdings in American Tower and SBA Communications.

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 outlook for the asset class is positive. Government attempts to improve weak economic fundamentals through infrastructure and green energy stimulus plans are likely to benefit many global listed infrastructure firms. In particular, the ongoing repair and replacement of old energy transmission and distribution grids, along with the accelerating build-out of renewables, should represent a steady source of utility earnings growth over long time frames.

These growth opportunities were highlighted this month. Warren Buffett's annual shareholder letter noted the material transmission growth opportunities being pursued by Berkshire Hathaway's utilities; while Bill Gates' new book "How to Avoid a Climate Disaster" notes the crucial role that upgraded transmission infrastructure has to play in responsibly addressing climate change.

As vaccine programs ramp up, there is also scope for a recovery in traffic / passenger volumes across coronavirus-impacted infrastructure sectors such as toll roads, airports and passenger rail.

[2] Source: Lipper & First Sentier Investors. Single pricing basis with net income reinvested. Data as at 28 February 2021. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. First Sentier Global Listed Infrastructure Fund inception date: 3 March 2008.
* From inception - 31 May 08 : S&P Global Infrastructure Index; From 1 Jun 08 – 31 Mar 15 : UBS Global Infrastructure and Utilities 50-50 Index; From 1 Apr 15 : FTSE Global Core Infrastructure 50/50 Index.

From a relative perspective, a slow or uneven economic recovery would favour structural themes – such as investment in mobile telecom networks to support increasing demand for mobile data – over cyclical growth opportunities. We also note that financial market pessimism towards global listed infrastructure and optimism towards higher risk assets has driven an increase in intrinsic value across the asset class. This bodes well for future global listed infrastructure performance.

Source : Company data, First Sentier Investors, as of end of February 2021