First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | August 2021

Market review

Global Listed Infrastructure gained in August as investor sentiment remained positive, despite evidence of supply chain disruption and labour market disconnects alongside the ongoing spread of Delta variant coronavirus.

The two best performing infrastructure sectors for a second consecutive month were Electric Utilities (+4%) and Water / Waste (+3%). US electric utilities were supported by a positive June quarter earnings season, and a renewed focus on their longer term opportunities to invest in transmission infrastructure and renewables. Towers / Data Centers (+3%) continued their strong run as structural growth characteristics remained in demand. The worst performing infrastructure sector was Gas Utilities (-1%). Chinese gas utilities underperformed after June quarter earnings results from ENN Energy (-5%, not held) failed to meet the market's bullish growth rate expectations.

The best performing infrastructure region was Asia ex-Japan (+6%). Improving investor sentiment underpinned share price gains for the region's airports; while its port operators were supported by robust volume growth. The worst performing infrastructure region was Latin America (-2%). A clash between Brazil's president and its judges raised concerns for the country's political stability ahead of the country's 2022 presidential election, and weighed on the country's infrastructure stocks.

Fund performance

The Fund returned +0.9% after fees in August[1], 69 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was UK utility SSE (+13%), which operates regulated electricity transmission and distribution networks in Scotland and southern England, as well as developing some of the world's largest offshore wind farms. Reports that activist Elliott Investors had built a position in the company sparked hopes that SSE may now seek to unlock value by separating the fast-growing renewables segment from its regulated utility businesses.

US utilities represented another area of strength in the portfolio, aided by favourable regulatory developments. Utility operator and renewables leader NextEra Energy (+8%) drew close to agreeing positive terms for the allowed earnings of its Florida Power & Light utility over the next four year period. Although final approval is still pending, the company looks set to continue its strong track record of constructive agreements in this important jurisdiction. Midwest operator Evergy (+6%) gained on strong June quarter earnings, and as investors remained positive on the firm's five-year business plan focused on growing earnings and increasing the proportion of renewables in its generation mix. Exelon (+6%), a substantial Northeast and Midwest utility with extensive nuclear generating capacity, gained as investors took the view that an Illinois energy bill, currently being negotiated by the state's legislature, would be likely to include provisions of financial support for the company's nuclear power plants.

Data centre operator CyrusOne (+8%), whose predictable cashflows are underpinned by multi-year contracts with enterprise and hyperscale customers, gained as investors favoured assets with less sensitivity to the risk of coronavirus-related disruption. Italian tower company Inwit (+6%) which operates a portfolio of high quality Italian towers (spun off previously from Telecom Italia and Vodafone) and US-listed peers SBA Communications (+5%) and American Tower (+3%) were supported by similar sentiment.

Swiss airport operator Flughafen Zurich (+5%) increased as ongoing strength from its property and retail segments, along with potential structural cost reductions, supported solid earnings numbers for the first half of 2021. The company also offered a positive outlook, with expectations that traffic volumes will reach 50% of 2019 levels by the end of 2021; and an undertaking to reinstate its 40% dividend payout ratio as soon as possible, with the potential to pay a special dividend.

The worst performing stock in the portfolio was Arizona-based regulated utility Pinnacle West (-8%). In contrast to the healthy gains achieved by most of the portfolio's utility holdings this month, its share price fell after draft terms for its next regulatory period were less favourable than had previously been expected. Pembina Pipeline (-6%), which owns and operates a strategically located and well-integrated set of energy storage and transportation assets in Western Canada, also lagged as investors took profits following substantial gains in recent months.

The portfolio's toll road operators delivered mixed returns. Italy's Atlantia (+4%) received formal approval from the Italian government to sell ASPI, its Italian motorway unit; while first-half earnings from French peer Vinci (+2%) were positive, with low volumes for its airport assets offset by strong toll road volumes. However Brazil's CCR (-6%) underperformed as reasonable June quarter earnings were overshadowed by political instability and a growing expectation that the country's central bank may have to raise interest rates by more than previously expected. China's Jiangsu Expressway (-3%) also gave up ground, as steady traffic growth during the June quarter was overshadowed by fresh movement restrictions in July and August, aimed at curbing the spread of coronavirus within the country.

[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.

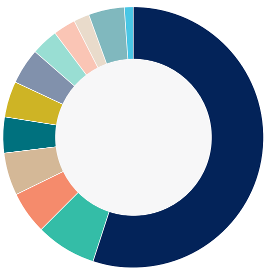
Annualised performance in SGD (%)[2]

	1 yr	3 yrs	5 yrs	10 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	14.7	6.9	6.3	8.8	4.7
Class A (SGD - H Dist) (Inc initial charges)	9.0	5.1	5.2	8.2	4.3
Benchmark*	18.5	9.0	8.7	10.7	5.5

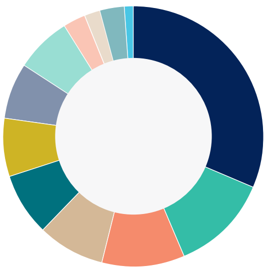
Cumulative performance in SGD (%)[2]

	3 mths	1 yr	3 yrs	5 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	3.0	14.7	22.2	35.9	85.9
Class A (SGD - H Dist) (Inc initial charges)	-2.2	9.0	16.1	29.1	76.6
Benchmark*	4.5	18.5	29.7	51.9	104.7

Asset allocation (%)[2]



Country
- USA 55.1
- Australia 7.4
- China 5.3
- Canada 5.2
- France 4.6
- Italy 4.4
- UK 4.4
- Spain 3.5
- Mexico 2.6
- Japan 2.0
- Other 4.5
- Liquidity 0.9



Sector
- Electric Utilities 31.5
- Highways/Railtracks 12.2
- Specialised REITs 10.4
- Railroads 8.2
- Multi-Utilities 7.7
- Gas Utilities 7.3
- Oil/Gas Storage & Trans. 7.1
- Airport Service 6.8
- Water Utilities 2.9
- Construction & Engineering 2.0
- Other 3.0
- Liquidity 0.9

Top 10 holdings (%)[2]

Stock Name	Sector	%
Nextera Energy Inc	(Electric Utilities)	6.4
American Tower Corporation	(Specialised REITs)	6.1
Transurban	(Highways/Railtracks)	5.6
Dominion Energy Inc COM	(Multi-Utilities)	5.1
Aena SA	(Airport Services)	3.5
SBA Communications Corp Class A	(Specialised REITs)	3.5
Xcel Energy Inc.	(Electric Utilities)	3.1
SSE plc	(Electric Utilities)	3.0
Eversource Energy	(Electric Utilities)	2.9
CSX Corporation	(Railroads)	2.8

Fund activity

The Fund initiated a position in US electric utility Entergy. This stock has significantly lagged peers over the past six months, creating an attractive entry point. We believe this company will deliver annual Earnings Per Share growth of between 5% and 7% over the next few years, from increased load growth, improving operational efficiencies and a robust capital expenditure program with upside from increased renewable energy deployment.

The Fund sold its holding in US water utility Essential Utilities after share price gains moved the stock to a lower position within our investment process. French construction and concession group Eiffage was also divested from the portfolio following steady share price improvements in recent months, and on concerns that the rise of Delta variant coronavirus cases may slow the French path to recovery.

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 bolster 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 many years. Recent extreme weather conditions in the US – wetter and windier conditions than normal in the eastern half of the country; droughts and wildfires in the west – have highlighted the pressing need to improve the resilience of that country's infrastructure networks.

There remains scope for a material recovery in traffic / passenger volumes across transport infrastructure sectors such as toll roads, airports and passenger rail, as vaccine programs ramp up globally. Reflecting this, toll roads represent the portfolio's largest sector overweight. Traffic volumes have proved more resilient than those of other transport infrastructure assets; and toll roads are likely to be the first to see a return to normal demand levels. The stop-start nature of the recovery across different regions and industries, along with strong post-pandemic demand, is presenting a challenge to global supply chain networks. During the month, the number of container ships waiting to unload their cargos onto trucks and freight rail trains at California's two largest ports rose to 44, compared to a typical number of either zero or one.

We are also cognizant of potential shifts in the political landscape, with upcoming elections in California, Canada, Germany and Japan (to be followed by France and Brazil next year). Analysis of political and regulatory risk represents a core part of our due diligence. We seek to assess, manage and balance potential risks of this nature by having a deep understanding of the regulatory frameworks in each market, and how those may change with elections; and by meeting with regulators in the various jurisdictions we own assets in.

[2] Source: Lipper & First Sentier Investors. Single pricing basis with net income reinvested. Data as at 31 August 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.

Source : Company data, First Sentier Investors, as of 31 August 2021.