First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | October 2021

Market review

Global Listed Infrastructure rallied in October, helped by robust September quarter earnings. The best performing infrastructure sector was Railroads (+14%). North American freight rail operators shrugged off supply chain hold-ups to deliver very strong earnings results. Pipelines (+6%) continued to gain on the view that high energy prices and a recovering global economy would provide the sector with favourable operating conditions.

The worst performing infrastructure sector was Toll Roads (-3%), as the spread of delta variant coronavirus continued to affect Asia Pacific traffic volumes. Faster-than-expected interest rate rises by Brazil's central bank weighed on that market's long duration stocks, including toll roads.

The best performing infrastructure regions were the United States (+7%) and Canada (+6%), reflecting strong gains for their railroad, pipeline and tower stocks. The worst performing infrastructure region was Japan (-8%). The country's utilities, which are largely dependent on imported natural gas and coal, faced concerns that profits would be negatively affected by higher input costs.

Fund performance

The Fund returned +1.5% after fees in October[1], 157 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stocks in the portfolio were US east coast freight rail operators Norfolk Southern (+22%) and CSX (+22%). Effective pricing power underpinned better-than-expected earnings growth during the September quarter. The adoption of Precision Scheduled Railroading (PSR) principles, which enable companies to run longer trains with fewer employees, saw both companies achieve productivity improvements despite ongoing domestic and international supply chain disruption.

America's second largest waste management and environmental services provider Republic Services (+12%) gained as the US economy continued to expand, albeit at a slower rate than seen earlier in the year. Similar to freight rail, waste management companies tend to benefit from increasing levels of economic activity. Recovering volume growth and strong pricing translated to 11% EPS growth in the September quarter, enabling the company to again raise earnings guidance for the full year.

The Fund's electric utility stocks climbed during October, led by Spanish-listed global renewables leader Iberdrola (+18%). Its share price rose as Spain's government softened its stance on the introduction of a windfall tax to address high electricity prices. Positive September quarter earnings numbers, reflecting higher energy prices and an increase in its renewable generation capacity, provided an additional tailwind to the stock.

US peer NextEra Energy (+9%) also delivered healthy September quarter earnings numbers. NextEra Energy Resources, the company's renewable energy subsidiary, grew its renewables project backlog by 2,160 megawatts (MWs) to 18,000 MWs, amid continued strong demand for renewables development. FirstEnergy (+8%) outperformed as it drew closer to settling a series of long-standing regulatory disputes in its Ohio jurisdiction, related to the state's nuclear subsidy legislation. Once resolved, the company is expected to strengthen its balance sheet by selling a stake in its FirstEnergy Transmission subsidiary.

Arizona-based Pinnacle West (-11%) represented an exception to the theme of positive electric utility performance during the month. The stock fell after the state's utility regulator proposed a larger-than-expected reduction in the firm's allowed rate of return, citing the company's poor record of customer service.

The worst performing stock in the portfolio was China Gas (-15%), following a gas explosion in the northeast Chinese city of Shenyang. The accident occurred at a project site operated by Shenyang Gas, in which China Gas owns a minority stake. Concerns that higher natural gas prices may affect margins, along with worries that a deteriorating Chinese property market could reduce demand for new gas connections, further affected sentiment towards the stock.

Australian freight rail operator Aurizon (-11%) underperformed following its A$2.35 billion acquisition of One Rail Australia, whose assets include freight rail operations in South Australia, New South Wales, Northern Territory and Queensland. The acquisition will see Aurizon's business mix diversify away from coal and into bulk commodities such as grain, copper, magnetite and phosphate. However the market reacted sceptically to the price paid, and to the execution risk associated with divesting the East Coast Rail business segment, required under the terms of the deal.

[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.

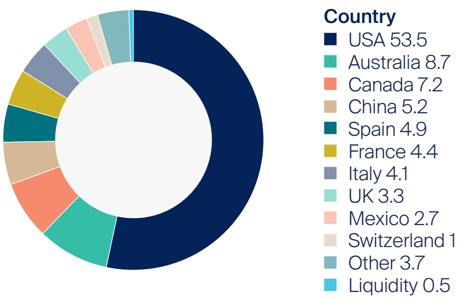
Annualised performance in SGD (%)[2]

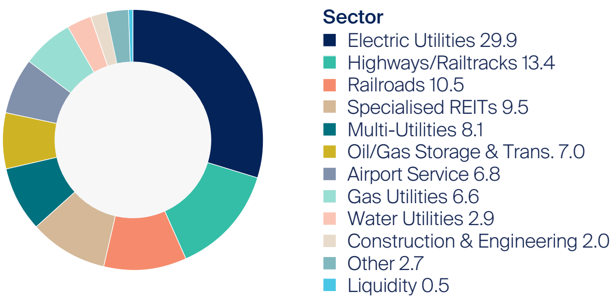
	1 yr	3 yrs	5 yrs	10 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	16.0	6.8	5.8	7.9	4.5
Class A (SGD - H Dist) (Inc initial charges)	10.2	4.9	4.7	7.3	4.1
Benchmark*	20.4	9.6	8.4	10.3	5.4

Cumulative performance in SGD (%)[2]

	3 mths	1 yr	3 yrs	5 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-0.5	16.0	21.7	32.6	83.4
Class A (SGD - H Dist) (Inc initial charges)	-5.4	10.2	15.6	25.9	74.2
Benchmark*	1.9	20.4	31.5	49.6	105.3

Asset allocation (%)[2]





Top 10 holdings (%)[2]

Stock Name	Sector	%
Transurban	(Highways/Railtracks)	7.0
Nextera Energy Inc	(Electric Utilities)	6.3
American Tower Corporation	(Specialised REITs)	5.3
Dominion Energy Inc COM	(Multi-Utilities)	5.1
Aena SA	(Airport Services)	3.8
SBA Communications Corp Class A	(Specialised REITs)	3.4
Norfolk Southern Corporation	(Railroads)	3.4
Xcel Energy Inc.	(Electric Utilities)	3.1
Pembina Pipeline Corporation	(Oil/Gas Storage & Trans.)	2.6
Emera Inc	(Electric Utilities)	2.6

Fund activity

The Fund initiated a position in Canada's largest freight rail company, Canadian National Railway. Its 33,000 km track network stretches across Canada, as well as extending south through the Midwest US to the Gulf of Mexico, and includes exclusive access to British Columbia's Port of Prince Rupert, North America's closest port to Asia. Having unsuccessfully bid for US peer Kansas City Southern, Canadian National is now expected to refocus on operating efficiency improvements. The resignation in October of its CEO, following pressure from activist investors, has drawn hopes that a new CEO with PSR expertise will be appointed.

The Fund divested its holding in US electric utility Exelon after the market warmed towards plans to split its regulated utility and competitive energy generation assets into two separate companies, resulting in pleasing share price gains during the Fund's holding period.

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 asset class is positioned to benefit from a number of positive drivers. Government attempts to bolster economic fundamentals through infrastructure and green energy stimulus plans are likely to prove supportive of 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. The 2021 United Nations Climate Change Conference (COP26), held in Glasgow, highlighted the scale of the work required to successfully transition away from fossil fuels (a message reiterated by the International Energy Agency – see further details below). Large-cap, listed electric utilities such as NextEra Energy and Iberdrola will be at the heart of this vital transformation.

Ever-increasing demand for wireless data / connectivity continues to underpin steady earnings growth for Towers and Data Centres, insulating them from the ebbs and flows of the broader global economy. The changes required during the coronavirus pandemic have already led to a greater reliance on wireless data in many people's everyday lives. The adoption of 5G technology over the medium term will require networks to handle increased data speed, and a much higher number of connected devices. Reflecting this, networking and telecoms company Ericsson expects wireless data traffic within the US to grow by a compound annual growth rate of 28% between 2021 and 2026.

There remains scope for a recovery in traffic / passenger volumes across coronavirus-impacted infrastructure sectors such as toll roads, airports and passenger rail following the rollout of vaccine programs. 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

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

toll roads are now leading the way towards (or have already achieved) a return to normal demand levels. We remain more cautious on the Airports sector, as it remains unclear how quickly consumer behaviour will return to normal; and prefer airports with a tourism / leisure focus to those with an emphasis on business travellers.

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