

# First Sentier Global Listed Infrastructure Fund Monthly review and outlook

Monthly Review and Outlook | June 2022

## Market review

Global Listed Infrastructure decreased as central bank tightening measures, elevated inflation levels and concerns for lower economic growth rates continued to weigh on financial markets.

The best performing infrastructure sector was Toll Roads (+1%), which were supported by the appeal of inflation-linked tolls and the prospect of takeover activity. The worst performing infrastructure sector was Energy Midstream (-10%), on the view that a slowing economic growth rate would reduce demand for hydrocarbons.

The best performing infrastructure region was Japan (+7%), traditionally viewed as a defensive haven during volatile markets. Its utilities performed strongly on the view that the record-breaking heatwave currently enveloping the country would lead to higher air conditioner usage and increased electricity demand. The worst performing infrastructure region was Latin America (-7%), as investor interest in higher beta areas of the market waned.

## Fund performance

The Fund returned -5.7% after fees in June<sup>1</sup>, 104 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was Australian-listed toll road operator Atlas Arteria (+12%), which owns toll roads in France, the US and Germany. The stock surged after direct infrastructure manager IFM Investors announced it had built a 15% stake and suggested that it may launch a takeover bid for the entire company. Mexican peer Pinfra (+9%) recovered ground after the appointment of a new auditor eased investor concerns about delays to the publication of audited financial statements for 2021. Transurban (+2%), whose assets include the main toll road networks in Australia's three largest cities, also outperformed as takeover interest in Atlas Arteria highlighted the appeal of its long-life, cash generative assets. The concession terms of the vast majority of Transurban's roads allow tolls to be increased by at least the rate of inflation. In contrast, Brazil's CCR (-6%) gave up ground as the risk-off environment overshadowed healthy traffic volumes (consistently above 2019 levels) on its toll roads.

Other strong performers during the month included West Japan Railway (+5%) following news that restrictions on the number of international travellers visiting Japan would be eased; and that the country's "Go To Travel" promotion for domestic tourists may be restarted. The company's rail network service territory includes the culturally rich Kansai region. China Gas (+4%) increased on indications that demand for natural gas in China was increasing as the country's coronavirus lockdown measures are lifted. News that the G7 group of countries were considering implementing a price cap on oil and natural gas exports from Russia provided an additional tailwind to China's gas utilities, on hopes for lower input costs.

Large cap US utility and renewables leader NextEra Energy (+2%) gained after raising earnings guidance to almost 10% per annum between 2021 and 2025, underpinned by the substantial investment opportunities presented by the transition to renewables. The company also announced a "Real Zero" target, under which it plans to eliminate carbon emissions from its operations by 2046, while providing carbon emissions-free energy to its customers. However, other US utilities including FirstEnergy (-11%), PPL Corp (-9%) and Sempra Energy (-8%) decreased as investors took profits and the US Federal Reserve raised interest rates by larger-than-expected 0.75%.

The worst performing stock in the portfolio was US energy midstream company Targa Resources (-17%), which was affected by concerns of an economic slowdown. During the month the company agreed to acquire natural gas processor Lucid Energy for \$US3.5 billion, in an acquisition which complements Targa's existing Texas-focused energy infrastructure footprint. Other energy midstream stocks DT Midstream (-15%) and Pembina Pipeline (-10%) gave up ground for similar reasons.

In the airports space, Spain's AENA (-15%) underperformed despite upgrading its traffic forecasts for the 2022 calendar year, as the prospect of recession raised concerns that people may be less willing to spend on holidays and overseas travel. Switzerland's Flughafen Zurich (-11%) underperformed for the same reason. Staff shortages in the transportation sector and a series of transport strikes across Europe also weighed on sentiment towards these stocks. Mexican peer ASUR (-8%) fared somewhat better, after May data showed that passenger volumes at its airports had now reached 120% of 2019's pre-pandemic levels.

<sup>1</sup> Fund performance 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.

## Fund activity

The Fund divested its position in large cap Spanish-listed electric utility Iberdrola. After investing in the stock in September 2021, the easing of political risk concerns and a growing focus on the build-out of renewables in Europe drove share price outperformance, moving the stock to a lower ranking within our investment process.

## 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.

Against a challenging economic backdrop, listed infrastructure remains supported by a number of structural growth drivers. We remain optimistic about the substantial investment opportunities associated with the decarbonisation of the world's energy needs. Utilities, which represent about a half of the listed infrastructure opportunity set, are positioned to derive steady, regulated earnings growth by building solar and wind farms, and by

upgrading and expanding the networks needed to connect these new power sources to the end user. Portfolio holdings Entergy, NextEra Energy and PPL Corp were amongst the US utilities that increased their earnings guidance in June as a result of additional investment in these areas – a welcome contrast to the turmoil seen elsewhere in financial markets.

Digitalisation is another key theme for the asset class. Structural growth in demand for mobile data (underpinned by an ever-growing reliance on digital connectivity) continues to support 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 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.

The asset class also continues to receive valuation support from the unlisted market. The expected takeover offer for Atlas Arteria would make it the latest Australian listed infrastructure company to be acquired by private buyers, following the acquisitions of Spark Infrastructure, Ausnet Services and Sydney Airport during the past 12 months. These offers illustrate the appeal that these long life and often unique assets present to sovereign wealth funds, private equity, unlisted infrastructure managers and trade buyers alike.

Source : Company data, First Sentier Investors, as of 30 June 2022.

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