First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | March 2024

Market review

Global Listed Infrastructure rose in March against a backdrop of broadly positive investor sentiment. The best performing infrastructure sector was Energy Midstream (+6%), aided by a favourable demand outlook and rising commodity prices. Utilities / Renewables (+6%) also gained, helped by a growing awareness of likely increases in load growth (electricity demand) over coming years, driven by demand from data centres / AI, industrial on-shoring and electric vehicle charging. The stabilising interest rate environment also proved supportive. The worst performing infrastructure sector was Toll Roads (-1%), owing to concerns for political risk.

The best performing infrastructure region was Japan (+11%), whose electric utilities gained on indications of further progress towards nuclear plant restarts. The worst performing infrastructure region was Australia / New Zealand (flat), reflecting mixed returns from the region's transport infrastructure stocks.

Fund performance

The Fund returned +2.9% after fees in March[1], 99 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was large-cap US regulated electric utility and renewables developer NextEra Energy (+16%). During the month the company held a well-received Investor Day, setting out a robust case for renewables' future growth prospects and highlighting its competitive advantages in this space. In a further positive for the stock, a long-running investigation into whether NextEra's utility business had breached Florida election rules was closed during the month, with no finding of wrongdoing.

Midwest peer Evergy (+9%), which provides electricity to 1.7 million customers in Kansas and Missouri, gained on favourable regulatory developments in its Kansas service territory – historically a challenging jurisdiction for the company. Several other regulated US utility holdings including Southern Company (+7%), Exelon (+6%) and Alliant Energy (+6%) also delivered robust gains during the month. In the absence of material stock-specific news, these gains appear to have been driven by a growing focus on the long-term demand drivers for the utilities sector mentioned above, as well as the attractive value currently on offer within this space.

Houston-based energy midstream company Targa Resources (+14%) continued its strong run. The company, whose gathering & processing, transportation & storage and export infrastructure assets are focused on Texas' Permian Basin, was supported by a robust production growth outlook across its areas of operation. DT Midstream (+7%) also performed well. The company's assets include the LEAP Gathering Lateral Pipeline, which transports natural gas from the Haynesville Basin in Louisiana to the US Gulf Coast. During the month, ongoing legal disputes (unrelated to DT Midstream) saw the expected completion dates for two other pipeline projects in the region – potential competitors to LEAP – pushed out from 2024 to 2025.

In the airports sector, Flughafen Zurich (+10%) announced healthy 2023 earnings numbers. Business travellers have recovered to 22% of its passenger mix, close to pre-COVID levels of 26%. The construction of Noida International Airport near New Delhi, which Zurich will operate as a concession until 2061, is progressing on schedule. Mexican peer ASUR (+5%) rose after reporting a year-on-year increase in passenger traffic of 4.8% for February 2024. Spanish operator AENA (+4%) appears set to benefit from indications of strong summer demand for low cost carrier EasyJet, which operates a number of routes to Spanish airports.

The worst performing stock in the portfolio was Chinese water utility Guangdong Investment (-28%), which announced a larger-than-expected dividend cut and left investors unclear as to the likely level of future dividend payments. Generally stable earnings from the company's water business in 2023 were offset by impairments within its property development segment. Having gained strongly in February, Beijing Airport (-6%) and ENN Energy (-6%) gave up ground as lacklustre 2023 earnings numbers weighed on both stocks, and hopes of government support measures for the Chinese equity market faded.

US freight rail operator Union Pacific (-3%) dipped in March, as investors took profits following strong share price gains in recent months. The stock has benefitted from investor anticipation of operational improvements, following the appointment of Jim Vena as CEO in August 2023. Australian toll road operator Transurban (-2%) underperformed as the publication of the New South Wales Independent Toll Review Interim Report provided a reminder of the potential political risk faced by its network of Sydney toll roads. While the report's authors proposed several revisions to existing tolling frameworks, legally binding concession agreements mean the company remains in a strong position to negotiate a fair outcome with the government.

Fund activity

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

[1] 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.

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.

Earnings growth for the asset class is likely to be underpinned by a number of structural growth themes over coming years. We are optimistic about the substantial investment opportunities associated with the decarbonisation of the world's energy needs. Utilities 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.

Our team's recent meetings with US utility management teams have been characterized by optimism that demand growth for electricity is set to increase materially over coming years. This is likely to bolster the need for transition fuels such as natural gas, which have a crucial role to play in maintaining energy reliability and affordability. As well as underpinning utilities' earnings growth, this is also likely to drive additional demand for North American energy midstream storage and transportation assets.

Digitalisation is another key theme for the asset class. We expect structural growth in demand for mobile data (underpinned by an ever-growing reliance on digital connectivity) to support long-term earnings growth for Towers. The adoption of 5G technology over coming years will require networks to handle increased data speed, as well as a much higher number of connected devices. The surge of interest in AI is driving data center demand, as well as boosting the need for electricity.

Source : Company data, First Sentier Investors, as of 31 March 2024.