Global Listed Infrastructure
Anatomy of Defensive Returns

First Sentier Investors

The anatomy of defensive returns

Listed infrastructure has offered investors attractive risk-adjusted returns and lower correlations to traditional asset classes. This outcome has been achieved by delivering steady outperformance during periods of equity market weakness.

This paper analyses the performance of our listed infrastructure Fund[1] in falling global equity markets. It concludes that the underlying characteristics of listed infrastructure, combined with active management, enabled the Fund to preserve capital in falling markets on most occasions. For long-term investors, this consistent pattern of capturing most of the upside but less of the downside has the potential to accumulate into material outperformance.

Fund holdings in most infrastructure sectors outperformed during falling equity markets. Utilities and mobile towers proved particularly resilient.

The sector's essential service provision and long life assets suggest that listed infrastructure remains well placed to continue to hold up during potential future periods of equity market weakness, although of course this cannot be guaranteed.

Cumulative Performance (% in GBP) to 30 June 2020

Period	3 mths	6 mths	1 year	3 years	5 years	10 years	Since Inception
First Sentier Global Listed Infrastructure B GBP Acc	**10.2**	**-5.4**	**-3.3**	**13.5**	**70.8**	**193.7**	**206.1**
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	10.7	-7.0	-5.3	14.7	66.1	164.6	143.2

Annual Performance (% in GBP) to 30 June 2020

Period	12 mths to 30/06/20	12 mths to 30/06/19	12 mths to 30/06/18	12 mths to 30/06/17	12 mths to 30/06/16
First Sentier Global Listed Infrastructure B GBP Acc	**-3.3**	**18.2**	**-0.7**	**17.0**	**28.7**
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	-5.3	19.8	1.1	13.1	28.1
MSCI World Net Total Return Index GBP	5.9	10.3	9.3	21.6	14.4

*The benchmark changed from the UBS Global Infrastructure & Utilities 50-50 Index to the above on 01/04/2015. These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than GBP, the return may increase or decrease as a result of currency fluctuations. All performance data for the First Sentier Global Listed Infrastructure Fund Class B (Accumulation) GBP as at 30 June 2020. Source for fund - Lipper IM / First Sentier Investors (UK) Funds Limited. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management and administration fee) and other costs charged to the fund (e.g. transaction and custody costs), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. Source for benchmark - FTSE, income reinvested net of tax. Since inception performance figures have been calculated from 08 October 2007.

[1] First Sentier Global Listed Infrastructure Fund. Fund performance is for the total portfolio in GBP, net of fees assuming an OCF of 0.80% pa, based on end of day market valuations and midday cash flow assumptions.

RISK FACTORS

This is a financial promotion for The First Sentier Global Listed Infrastructure Strategy. This information is for professional clients only in the UK and EEA and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Currency risk:** The Fund invests in assets which are denominated in other currencies; changes in exchange rates will affect the value of the Fund and could create losses. Currency control decisions made by governments could affect the value of the Fund's investments and could cause the Fund to defer or suspend redemptions of its shares.
- **Single sector risk:** Investing in a single economic sector may be riskier than investing in a number of different sectors. Investing in a larger number of sectors helps to spread risk.
- **Charges to capital risk:** The fees and expenses may be charged against the capital property. Deducting expenses from capital reduces the potential for capital growth.
- **Listed infrastructure risk:** The infrastructure sector and the value of the Fund is particularly affected by factors such as natural disasters, operational disruption and national and local environmental laws.
- **Emerging market risk:** Emerging markets tend to be more sensitive to economic and political conditions than developed markets. Other factors include greater liquidity risk, restrictions on investment or transfer of assets, failed/delayed settlement and difficulties valuing securities.

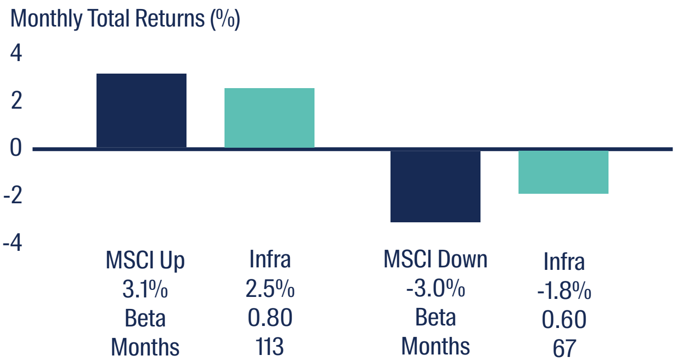
For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document for each Fund.
If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

Introduction

Listed infrastructure consists of real assets that provide essential services, often backed by contracted or regulated earnings. Stable demand and a relatively low sensitivity to the broader economic cycle tend to support infrastructure earnings at times when more cyclical businesses can struggle.

The overall beta of listed infrastructure compared to global equities has been around 0.7 over the long term. Broken down, this has translated to beta of 0.8 in rising markets, and just 0.6 in falling markets, as illustrated in Figure 1. In essence; delivering most of the upside in rising markets, whilst falling by significantly less than global equities during periods of decline.

Figure 1:
Global Infrastructure in MSCI World Up/Down Markets



FTSE Global Core Infrastructure 50/50 Net TR Index from Dec-05, previously Macquarie
MSCI World Net TR GBP. Monthly data for 15 years to 30 June 2020
Source: Bloomberg and First Sentier Investors

Analysing the 15 discrete months when global equity markets fell the furthest, since the Fund's inception, allows a more detailed assessment of this pattern of performance.

The data in Figure 2 compares the performance of global equities with the returns of the Fund during those 15 months. This period encompasses a broad range of market conditions, including the 2008-9 Global Financial Crisis; generally rising markets punctuated with geopolitical and trade tensions between 2010 and 2019; and the coronavirus pandemic in 2020.

Fund performance in falling markets

Figure 2 shows the performance of the Fund during those months, ordered by the magnitude of MSCI World declines.

Figure 2:
Performance of the Fund vs MSCI World

Month	MSCI World Net Index (GBP)	First Sentier Global Listed Infrastructure Fund, net of fees	Difference
Mar-20	-10.6%	-12.5%	-1.9%
Oct-08	-10.6%	-8.3%	2.3%
Sep-08	-9.8%	-10.4%	-0.6%
Feb-09	-9.2%	-9.5%	-0.3%
Jan-09	-9.0%	-8.2%	0.8%
Jun-08	-8.6%	-10.5%	-1.9%
Jan-08	-7.5%	-6.5%	1.0%
Dec-18	-7.4%	-4.5%	2.9%
Aug-11	-6.3%	-3.3%	3.0%
Jun-10	-6.2%	-2.5%	3.7%
Feb-20	-5.5%	-5.5%	0.0%
Oct-18	-5.4%	1.6%	7.0%
Aug-15	-5.3%	-3.3%	2.0%
Jun-15	-5.2%	-7.0%	-1.8%
May-10	-4.7%	-4.1%	0.6%

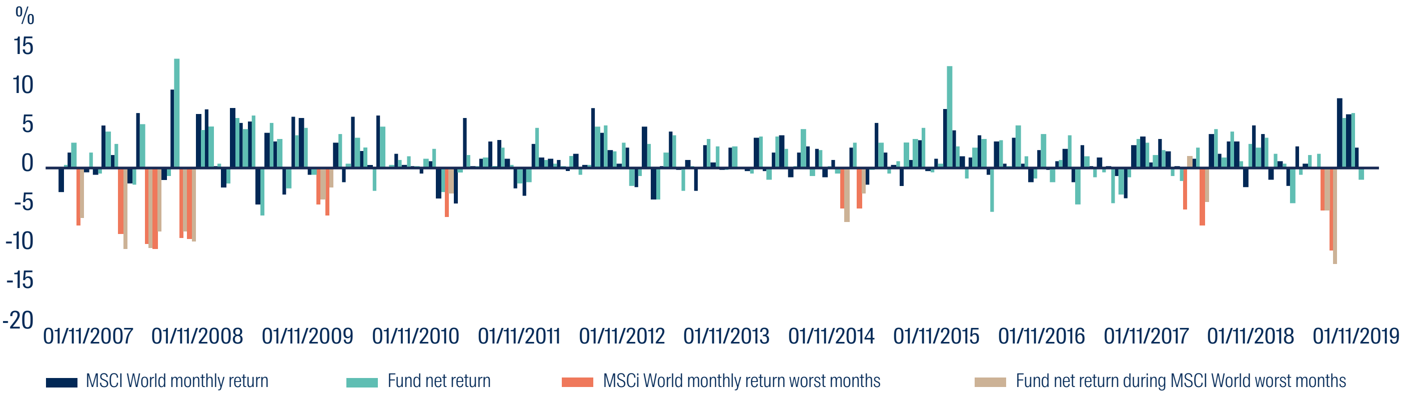
Fund performance is for the total portfolio, net of fees in GBP, based on end of day market valuations and midday cash flow assumptions.
Source: Bloomberg, First Sentier Investors

The Fund outperformed global equites on 9 of these 15 down months, resulting in outperformance, on a simple average basis, of 1.1% per month.

These details highlight three main points:

- Sometimes sell-offs can be indiscriminate. In 2008 and again in 2020, the flight to safety and the need for liquidity saw equity markets tumble. In this environment few distinctions are made between higher and lower quality stocks.
- As active stock pickers running conviction portfolios, we don't always get it right. During other months (June 2015) fund positioning counted against us.
- Most of the time, listed infrastructure's underlying characteristics, combined with value-adding active management, enabled the Fund to preserve capital in falling markets. While this outcome is expected, it is encouraging to note the magnitude of outperformance during these periods of very worst market conditions, when investors seek a safe haven.

Figure 3 shows the dispersion of these down markets chronologically, illustrating the difficulty of predicting when they may arise, and emphasising the value of maintaining defensive exposures within a portfolio.



Fund performance is for the total portfolio, net of fees in GBP, based on end of day market valuations and midday cash flow assumptions. Source: Bloomberg, First Sentier Investors.

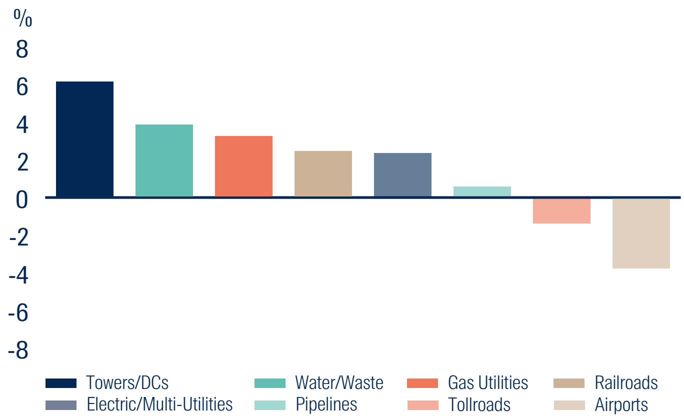
Performance in falling markets by sector

We can look in more detail at the underlying sectors delivering this outperformance by comparing the average performance of the MSCI World during these 15 months (-7.4%) with the contribution to returns from the Fund's holdings in a range of infrastructure sectors, over the same 15 1-month periods[2].

For example, the Fund's tower holdings – the most defensive infrastructure sector over the sample period as a whole – contributed -1.3% to returns on average during those 15 months; beating global equities' equivalent average return during those months by +6.1%.

Figure 4 shows listed infrastructure sector performance, relative to global equities, during severe market downturns (ordered by most defensive sector to least defensive).

Figure 4:
Outperformance vs MSCI World during the 15 worst down months 2007 - 2020



Source: Bloomberg, First Sentier Investors

Underlying drivers of performance

The most defensive sector during these 15 specific months was mobile towers. Structural growth drivers have insulated these stocks from the ebbs and flows of the broader global economy. The proliferation of smart phones over the past decade has dramatically increased the usage of mobile data, in turn driving demand for mobile tower services. Planning restrictions on tower sites represent effective barriers to entry. Long-term contracts tend to provide for annual price escalators of around 3%, and help to minimise technology risk.

Utilities also held up well. American and British water utilities, which dominate the listed water sector, operate within highly mature markets. They are typically allowed to earn a small premium to their underlying cost of capital, resulting in minimal volatility in each company's returns throughout the regulatory period.

Gas, electricity and multi-utilities delivered meaningful outperformance. These stocks have very predictable patterns of steady demand underpinning their business models. Transmission and distribution networks tend to be monopoly suppliers of electricity and gas. Pricing is usually set by formal regulation of returns on equity, giving very clear visibility over future earnings streams. The Fund tends not to invest in utilities that focus on merchant power generation or retailing activities, which are typically less regulated, more competitive, and can have a higher variation of return outcomes.

North American energy pipelines have faced headwinds in recent years. Volatile energy prices, combined with slower than expected regulatory approval for several substantial projects, have raised concerns about balance sheet stability. However as this analysis illustrates, the sector has on average outperformed global equities during sharp market downturns. Pipeline tariffs tend to keep pace with inflation over time, while volumes are supported by long-term, take-or-pay contracts.

Railroads, toll roads and airports are hard assets[3] with high barriers to entry and demand profiles that make their customers relatively insensitive to price increases.

[2] The contribution to return of each sector has been divided by the average portfolio weight of each sector to obtain a proxy comparison to global equities (and assumes a constant sector weight throughout the month).

[3] A hard asset is a tangible or physical item or object of worth that is owned by an individual or a corporation. It is listed on the balance sheet as an asset and can be used by analysts to calculate a company's value.

North American freight rail companies are unique and valuable franchises. Their wholly-owned track networks are high quality infrastructure assets which can never be replicated. They typically operate under duopoly market conditions, with significant numbers of captive customers such as grain, chemical and auto producers giving them strong pricing power over long haul routes. Improving operating efficiency provides further scope to grow earnings. Trucks represent competition over shorter distances, and volumes are linked relatively closely to economic growth. Japanese passenger rail companies are highly cash generative, stable businesses which operate some of the world's busiest high speed rail lines.

Toll road revenues tend to be robust, with consistently high operating margins of between 60% and 80%, and the potential to match GDP growth over the long-term. Concessions are typically set over long time frames, with price increases often linked to inflation and negotiated compensation for additional capital expenditure.

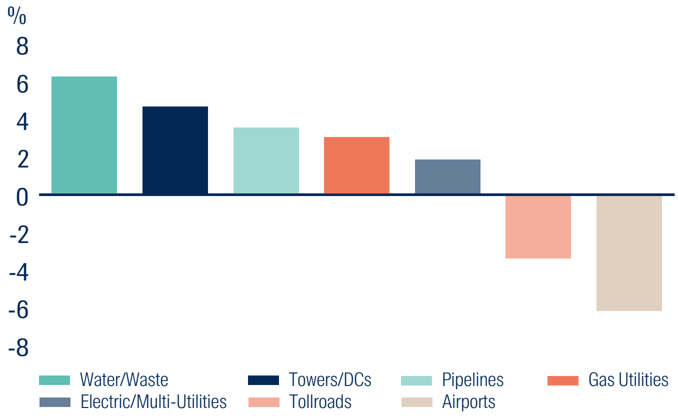
Airports tend to operate under long-term leases and are subject to some form of regulation. Driven by globalisation, increased wealth and declining real airfares, passenger volumes have historically grown at multiples of GDP. Revenue is typically well diversified with income from aeronautical, retailing and property services.

Toll roads and airports were the only infrastructure sectors that did not outperform global equities during these months. The nature of their businesses gives them some sensitivity to economic growth rates. However, these sectors have delivered strong gains during rising markets.

Consistent outperformance through time

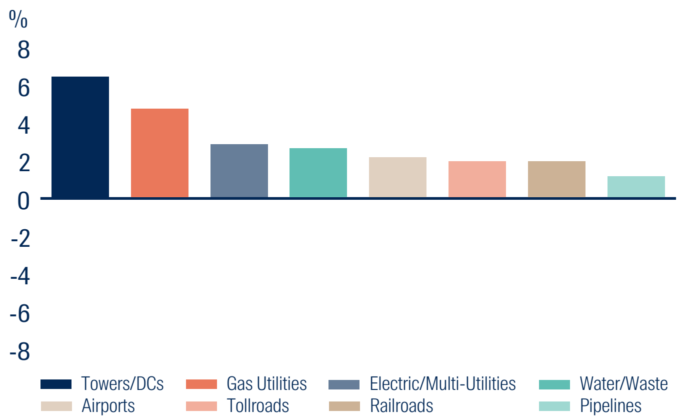
Splitting the data into three distinct periods (2007 - 2009; 2010 - 2019 and 2020) results in the same pattern, as illustrated in Figures 5-7. Making some allowances for the unprecedented circumstances of 2020, this highlights the broad consistency of these defensive characteristics across the global listed infrastructure asset class.

Figure 5:
Outperformance vs MSCI World during 2007 – 2009 down months[4]



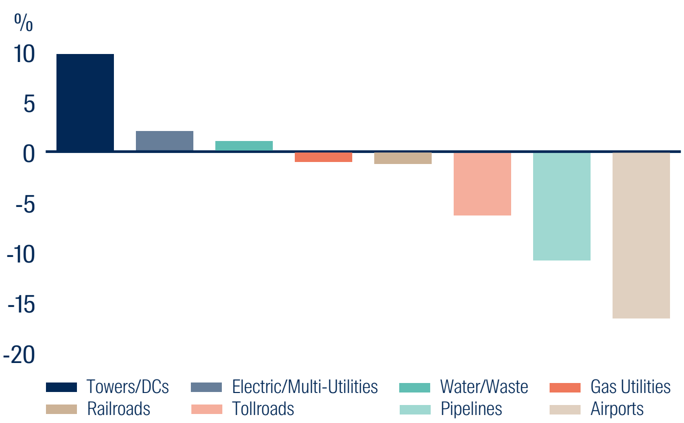
Source: Bloomberg, First Sentier Investors

Figure 6:
Outperformance vs MSCI World during 2010 – 2019 down months



Source: Bloomberg, First Sentier Investors

Figure 7:
Outperformance vs MSCI World during 2020 down months



Source: Bloomberg, First Sentier Investors

[4] Freight rail sector excluded this period due to sub-1% portfolio weighting

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