Global Listed Infrastructure Fund
Monthly update

First Sentier Investors

Monthly Update | September 2020

For professional clients only

Market review

Global Listed Infrastructure held up in September as global equities' recent momentum faltered. The FTSE Global Core Infrastructure 50/50 index returned 2.4%, while the MSCI World index^ ended the month flat.

The best performing infrastructure sectors included Multi-Utilities (+2%) and Electric Utilities (+1%) as investors rotated towards stable, lower beta assets. Toll Roads (+2%) also gained, helped by improving traffic volumes for Asia-Pacific operators.

The worst performing infrastructure sector was Pipelines (-7%), which lagged on a growing awareness of the longer term structural challenges facing fossil fuel demand (decarbonisation and renewables growth, electric vehicles rollout, potential competition from hydrogen). During the month, California's Governor signed an order that would prohibit the sale of diesel and petrol passenger cars in the state by 2035; and China committed to a 2060 net zero carbon emissions target.

The best performing infrastructure regions were the United Kingdom (+4%), where utilities were buoyed by the prospect of more favourable regulatory outcomes than previously anticipated; and Australia / New Zealand (+4%), whose roads and airports gained on an improving coronavirus situation. The worst performing infrastructure region was Latin America (-4%), reflecting underperformance from Brazil's broader market.

Fund performance

The Fund returned 1.2% after fees in September[1], 120 bps behind its benchmark index.

Annual Performance (% in GBP) to 30 September 2020

Period	12 mths to 30/09/2020	12 mths to 30/09/2019	12 mths to 30/09/2018	12 mths to 30/09/2017	12 mths to 30/09/2016
First Sentier Global Listed Infrastructure Fund B GBP Acc	-12.8	27.5	-2.2	10.7	40.0
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	-12.6	24.4	3.2	8.6	33.9
MSCI World Net Total Return Index GBP	5.2	7.8	14.4	14.4	29.9

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 the share class currency, the return may increase or decrease as a result of currency fluctuations.

Performance figures have been calculated since the launch date. 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: Lipper IM / First Sentier Investor (UK) Funds Limited.
*The benchmark changed from the UBS Global Infrastructure & Utilities 50-50 Index on 01/04/2015.

[1] Performance is based on OEIC B Acc share class, net of fees, expressed in GBP.
^ MSCI World Net Total Return Index, GBP.
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

RISK FACTORS

This is a financial promotion for The First Sentier Global Listed Infrastructure Fund. 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.**
- **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.
- **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.
- **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.
- **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.
- **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.

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.

The best performing stock in the portfolio was Auckland International Airport (+10%), which climbed steadily as domestic airline services resumed, and a trans-Tasman travel bubble between Australia and New Zealand appeared increasingly likely. ASUR (+4%), whose assets include Cancún International Airport (Mexico's second busiest), was supported by a continued improvement in passenger numbers. However, Spain's AENA (-5%) and Flughafen Zurich (-7%) gave up some of the previous month's gains as European coronavirus case numbers increased.

Toll road operators also delivered mixed returns. Transurban (+5%) gained on the view that Melbourne (whose road networks account for around a third of the company's earnings) may be able to ease its coronavirus restrictions sooner than expected. Investors were drawn to the secure 6% dividend yield offered by Jiangsu Expressway (+1%), whose toll road revenues have now largely recovered to pre-coronavirus levels. Despite road traffic being relatively more resilient than other transport modes during the pandemic, Eiffage (-10%) and Vinci (-9%) underperformed due to a spike in coronavirus case numbers in Europe.

Demand for defensive, income-generative assets helped UK multi-utility National Grid (+6%) and water utility Severn Trent (+5%) to outperform. UK utilities were further buoyed by news that the Competition and Markets Authority had determined that the allowed returns of four unlisted water companies were too low. Although unlikely to affect Severn Trent, the decision bodes well for upcoming regulatory decisions for National Grid, and for peer SSE (-4%) which rallied after the end of the month.

Mobile tower stocks SBA Communications (+4%) and Crown Castle (+3%) performed relatively well as investors anticipated robust September quarter earnings. American Tower (-3%) lagged in comparison, despite announcing a new 15 year agreement with T-Mobile, one of its main customers. The move should provide visibility over leasing revenue growth, and reinforces the essential nature of mobile towers over the long term.

The worst performing stocks in the portfolio included energy infrastructure names Cheniere (-11%), Enterprise Products Partners (-10%) and Magellan Midstream Partners (-10%). In the absence of material stock-specific news, these moves appear to reflect investor concerns about the structural headwinds facing the sector (noted earlier). Gas utility Rubis (-13%), which owns and operates a range of specialist energy storage and distribution assets, was affected by similar concerns. We believe that contracted and regulated business models, and the still-vital nature of the services provided by these companies' unique or hard-to-replicate assets, will remain supportive of earnings and valuations.

US Pacific Northwest utilities represented another area of weakness in the portfolio. Multi-utility Avista (-7%) and electric utility Portland General Electric (-6%) fell sharply after wildfires broke out in their respective Washington and Oregon service territories, before recovering some ground as it became clear that high winds rather than utility equipment or maintenance activities had caused the fires. Unlike California, these states' regulatory frameworks allow utilities to recover wildfire-related costs unless found negligent.

Fund activity

Italian-listed tower operator INWIT was added to the Fund. INWIT was established in 2015 when Telecom Italia, Italy's incumbent telecom company, spun off its high quality tower portfolio as a stand-alone business. In March 2020 it merged with Vodafone's Italian tower portfolio, creating Europe's second largest listed tower company with over 22,000 towers. The company is now positioned to benefit from mobile towers' long term structural growth tailwinds, as Telecom Italia and Vodafone build out 5G and small cell networks in Italy.

A position was initiated in Chinese water utility Guangdong Investments, whose core business supplies water to customers in Hong Kong and the Guangdong Province cities of Shenzhen and Dongguan. The company has a strong balance sheet, is run by an experienced management team, and pays a dividend yield of almost 5%. Concession agreements that run until at least 2030 provide clear earnings visibility, while a lack of alternative water supplies for Hong Kong give the company effective pricing power. Low debt levels and strong recurring cash flows should enable the company to grow further by acquiring additional water projects throughout China.

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 the potential for inflation-protected income and strong capital growth over the medium-term.

The portfolio remains positioned with toll roads as its largest sector overweight. Valuation multiples still imply multi-year traffic declines, in contrast to the improvements that toll road companies referenced in recent quarterly earnings updates. While increased flexibility to work-from-home may result in adjustments to traffic, we see clear evidence that people prefer to travel by private car than by public transport in order to maintain social distancing.

The portfolio's overweight exposure to gas utilities consists of specialist North American and European companies operating in niche market areas; a Japanese operator with a strong balance sheet trading at undemanding valuation multiples; and Chinese gas utilities which are positioned to benefit from a structural shift from coal to cleaner energy sources, in a region that has so far coped well with the coronavirus outbreak.

The Fund now has a roughly neutral exposure to Multi/Electric utilities, where steady share price gains have reduced some of the mispricing previously seen in this sector. Utilities still represent a substantial part of the portfolio in absolute terms. Regulated utility earnings should be materially more resilient than those of the broader market in the event of an extended economic slowdown or recession; and low interest rates will be supportive of valuation multiples.

All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

We remain cautious on the Airports sector. A sustained recovery in airline passenger numbers appears a remote prospect for many airports, given traveller wariness and persistently high coronavirus case numbers. A staggered re-opening of airports appears likely to start with domestic or regional flights, which are less valuable than international flights. The silver lining is that many airports' regulated assets are now under-earning their allowed returns, giving scope for future regulatory terms to be more generous than previously expected.

For further institutional enquiries contact institutionalenquiries@firstsentier.com
For wholesale enquiries contact enquiries@firstsentier.com

MAR000716_1020_UKEU