

Global Listed Infrastructure Fund (Irish VCC) Monthly update

Monthly Update | October 2020

For professional clients only

Market review

Global Listed Infrastructure exhibited its defensive characteristics in October, as coronavirus lockdowns in Europe and a contentious US election season weighed on global equities. The FTSE Global Core Infrastructure 50/50 index declined -0.7%, while the MSCI World index¹ fell -3.1%.

The best performing infrastructure sectors were Electric Utilities (+4%) and Multi-Utilities (+3%), which announced generally positive September quarter earnings numbers. A continued focus on US utilities' growth potential as they transition towards cleaner energy, along with fresh M&A activity, heightened investor interest. The worst performing infrastructure sector was Railroads (-6%), as quarterly earnings for North American freight rail operators fell short of the market's (high) expectations; and Japanese passenger rail volumes remained persistently low.

The best performing infrastructure regions were the United States (+2%), where utilities outperformed for reasons outlined above; and the United Kingdom (+2%), where electric utility SSE (+4%, held) and multi-utility National Grid (+3%, held) were supported by a positive regulatory outlook. The worst performing infrastructure region was Japan (-8%), reflecting passenger rail weakness and underperformance from the country's electric utilities (not on our Focus List) owing to declining electricity consumption levels and intense competition for retail customers.

Fund performance

The Fund returned 0.3% after fees¹ in October, 100 basis points ahead of the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Annual Performance (% in USD) to 31 October 2020

Period	12 mths to 31/10/2020	12 mths to 31/10/2019	12 mths to 31/10/2018	12 mths to 31/10/2017	12 mths to 31/10/2016
First Sentier Global Listed Infrastructure Fund ID USD	-8.8	17.7	-5.6	16.5	7.8
FTSE Global Core Infrastructure 50/50 Index Net TR USD*	-9.6	20.7	-2.9	15.9	8.3
MSCI World Net Total Return USD	4.4	12.7	1.2	22.8	1.2

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 Investors (UK) Funds Limited. *The benchmark changed from the UBS Global Infrastructure & Utilities 50-50 Index on 01/04/2015.

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.

¹ Performance is based on VCC ID share class, net of fees, expressed in USD.

* MSCI World Net Total Return Index, USD.

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

The best performing stock in the portfolio was New Mexico and west Texas electric utility PNM Resources (+21%), which agreed to an US\$8bn takeover offer from Avangrid (-2%, not held). The combined entity will be a substantial utility business and one of the largest renewable energy companies in the US, with operations in 24 states. This acquisition reflects the significant energy transition investment opportunities in PNM's service territories, which are rich in solar and wind resources.

Other positive performers in the US utilities space included Portland General Electric (+11%), which announced better than expected September quarter earnings helped by lower Operations & Maintenance costs; and noted it was unaware of any wildfires that had been caused by its equipment. In-line September quarter earnings numbers from American Electric Power (+10%), which delivers electricity to more than five million customers in 11 US states, were accompanied by positive commentary about the scope of renewables-related growth potential. CenterPoint Energy (+9%) gained as investors anticipated the likely sale of its Enable midstream business and the resulting shift to a more regulated business model. Midwest utility Evergy (+9%) also climbed as investors identified value.

Chinese gas utility ENN Energy (+16%) announced strong September quarter earnings numbers against the backdrop of China's ongoing domestic recovery. Gas sales volumes increased by +18% compared to the same period a year earlier and new residential connections were +45% higher, enabling the company to raise its full year earnings growth target from +15% to +18%. China Gas Holdings (+8%), which reports earnings later in November, was also buoyed by these positive results. China's plan to turn carbon neutral by 2060 could further boost domestic gas utilities' already-healthy growth trajectory, as natural gas is used as a transition fuel away from coal.

The worst performing stock in the portfolio was energy supply and storage business Rubis (-18%). Concerns for petroleum demand levels saw the stock's valuation multiples trade down to multi-year lows, despite healthy company fundamentals and a stable earnings outlook. The company has a strong track record of acquiring energy infrastructure assets deemed non-core by larger operators, and then realising value through strong operating performance. The current market environment, and integrated oil companies' shift towards renewables, are likely to present Rubis with further contrarian opportunities to acquire profitable assets at cheap prices. The company recently announced plans to use its robust balance sheet to buy back shares.

Japanese passenger rail stocks East Japan Railway (-16%) and West Japan Railway (-14%) underperformed as Japan's recurring coronavirus outbreak continued to dampen station retail sales and travel demand – particularly on the companies' longer haul and more lucrative shinkansen routes. Passenger numbers are slowly recovering from the depressed levels seen during April and May's nationwide state of emergency, but remain well below pre-pandemic levels.

European transport stocks also fell as the reintroduction of coronavirus lockdown measures across the continent overshadowed resilient recent traffic volumes. French toll road operator Eiffage (-11%) reported that traffic volumes on APRR (the company's main toll road asset) fell by just -2.7% during the September quarter compared to the same period a year earlier. Traffic on the Vinci (-5%) road network declined by -4.3% during the same period. Spanish airport operator AENA (-3%) announced better than expected September quarter earnings owing to disciplined cost control, although full year traffic forecasts for 2020 were lowered in the light of fresh travel restrictions. A limited decline for Switzerland's Flughafen Zurich (-2%) reflected investor recognition of its supportive regulatory regime, conservative management team and valuable property portfolio.

Fund activity

The Fund initiated a position in Exelon, a substantial US utility that delivers electricity and natural gas to approximately 10 million customers in the Northeast and Midwest US. The company is also one of the largest US power generators, with extensive nuclear, gas, wind, solar and hydroelectric generating capacity. Exelon recently announced it was considering the sale of its generation assets. This would reduce its exposure to competitive power markets and give the business a more predictable earnings profile, which could cause it to trade up to higher valuation multiples.

Essential Utilities, a regulated US water, wastewater and natural gas business was also added to the portfolio. The need to upgrade aged water pipeline networks, along with the ability to carry out "tuck-in" acquisitions of smaller peers, represent long term sources of low-risk earnings growth. A sceptical market reaction to the acquisition of natural gas assets in 2018 (which represents around a third of the company's earnings) has led to a sustained period of underperformance compared to peers, presenting an opportunity to buy.

Exposure to the North American freight rail sector was adjusted during October. West Coast operator Union Pacific was sold following a sustained run of outperformance; and after the company unexpectedly announced that Chief Operating Officer Jim Vena, who had been instrumental in driving operational efficiency improvements at the firm since his appointment in early 2019, would move to a senior adviser role at the end of this year. The proceeds were used to initiate a position in East Coast peer CSX, on a relative valuation basis. The company has underperformed other North American freight rail operators over 1 and 3 years, on the view that its operational improvement story has already played out. It now trades at a lower Price/Earnings ratio, with a higher free cash flow yield, than any of its peers, despite similar operational metrics and a well-regarded, experienced management team. US energy pipeline company Williams was also sold after outperformance vs peers during the 2020 calendar year moved the stock to a lower ranking within our investment process.

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 theme of energy decarbonisation – and its implications for large segments of the listed infrastructure opportunity set – has gathered positive momentum in recent months. Net Zero targets for the UK and the European Union have been followed by Net Zero announcements from China, Japan and South Korea. Net Zero assumptions are reflected in our team's thinking, stock analysis and portfolio exposures, incorporating both stranded asset risk and attractive growth opportunities.

Energy infrastructure faces an environment where oil demand may have already peaked. Volumes for North American oil pipelines may now be in structural decline, albeit with residual demand likely from the petro-chemical and aviation industries. Over the medium term, we expect that thermal coal will be eliminated from power generation, followed by the steel industry finding an eventual replacement for metallurgical coal. This shift has implications for utilities with generation capability, as well as for freight rail companies with coal haulage segments.

More positively, natural gas is likely to remain a key transition fuel with continued growth over the next decade, before a structural decline in demand begins. Gas-fired power plants can supply energy quickly at times of high demand. They provide a flexible way to mitigate renewables' intermittency while transmission grids are being upgraded and expanded to link to new solar and wind farms. Even then, some countries (Japan) or regions (US northeast) will rely in part on natural gas, owing to a lack of renewable resources.

Further, the replacement of uneconomic conventional power stations by cheaper renewables is likely to present substantial capex opportunities for many utilities over coming years. In the US, regulated utilities are typically allowed to recover costs and – importantly – earn a return on capital expenditure. Large-scale capital investment in wind and solar assets is being led by large, publicly traded electric utilities including NextEra Energy and Xcel Energy. We anticipate this will represent a source of steady earnings growth over long time frames, particularly for larger utilities which can benefit from substantial economies of scale.

As we assess these assumptions, we continue to execute the investment process that has served us well since 2007, focusing on relative quality and value, and seeking to invest in good quality companies at good prices.

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

Important Information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered and does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It does not constitute investment advice and/or a recommendation and should not be used as the basis of any investment decision. This document is not an offer document and does not constitute an offer or invitation or investment recommendation to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any material contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy, or completeness of the information. We do not accept any liability whatsoever for any loss arising directly or indirectly from any use of this information.

References to "we" or "us" are references to First Sentier Investors.

In the UK, issued by First Sentier Investors (UK) Funds Limited which is authorised and regulated by the Financial Conduct Authority (registration number 143359). Registered office Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB number 2294743. Outside the UK, issued by First Sentier Investors International IM Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registered number 122512). Registered office: 23 St. Andrew Square, Edinburgh, EH2 1BB number SC079063.

Certain funds referred to in this document are identified as sub-funds of First Sentier Investors Global Umbrella Fund plc, an umbrella investment company registered in Ireland ("VCC"). Further information is contained in the Prospectus and Key Investor Information Documents of the VCC which are available free of charge by writing to: Client Services, First Sentier Investors (UK) Funds Limited, Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB or by telephoning 0800 587 4141 between 9am and 5pm Monday to Friday or by visiting www.firstsentierinvestors.com. Telephone calls may be recorded. The distribution or purchase of shares in the funds, or entering into an investment agreement with First Sentier Investors may be restricted in certain jurisdictions.

Representative and Paying Agent in Switzerland: The representative and paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. Place where the relevant documentation may be obtained: The prospectus, key investor information documents (KIIDs), the instrument of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

First Sentier Investors entities referred to in this document are part of First Sentier Investors a member of MUFG, a global financial group. First Sentier Investors includes a number of entities in different jurisdictions. MUFG and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

Copyright © (2020) First Sentier Investors

All rights reserved.

MAR000734_1120_UKEU