Global Listed Infrastructure Fund
Monthly update

First Sentier Investors

Monthly Update | February 2021

For professional clients only

Market review

Global Listed Infrastructure delivered mixed returns in February as mounting hopes of an economic recovery, along with concerns for rising inflation, pushed bond yields higher. The FTSE Global Core Infrastructure 50/50 index fell –2.7%. The MSCI World index^ ended the month up +0.7%.

The best performing infrastructure sectors were Airports (+8%) and Railroads (+7%), as investors anticipated a medium term return to normalised passenger volumes. The worst performing infrastructure sectors were Water / Waste (-7%) and Electric / Multi-Utilities (-5%), as investors favoured higher beta sectors. Volatility in the Texas energy market, caused by unusually cold weather, also weighed on some North American utility businesses.

The best performing infrastructure regions were Asia ex-Japan (+9%) and Europe ex-UK (+8%), with transport infrastructure leading the gains. The worst performing infrastructure region was the utilities-focused United Kingdom (-5%).

Fund performance

The Fund returned -1.1% after fees in February[1], 162 bps ahead of the FTSE Global Core Infrastructure 50/50 Index (GBP, Net TR).

Annual Performance (% in GBP) to 28 February 2021

Period	12 mths to 28/02/2021	12 mths to 28/02/2020	12 mths to 28/02/2019	12 mths to 28/02/2018	12 mths to 28/02/2017
First Sentier Global Listed Infrastructure Fund B GBP Acc	-6.1	11.0	13.8	-4.8	32.0
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	-8.4	10.0	15.8	-4.1	30.1
MSCI World Net Total Return Index GBP	18.2	9.0	4.0	6.0	35.8

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.

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 Switzerland 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 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.

The best performing stock in the portfolio was Mexican airport operator ASUR (+21%), which rallied on the view that demand for leisure travel would rebound strongly as the coronavirus vaccine rollout progressed. Key assets for the company include the airport at the US tourist destination of Cancun. Robust December quarter earnings numbers illustrated disciplined cost control, while passenger numbers continued to recover from last year's lows.

European peer AENA (+11%), which operates a portfolio of 46 Spanish airports including Madrid-Barajas and Barcelona, the country's two largest hubs, also delivered strong returns. Owing to its airports' locations, AENA's passenger mix is tilted towards Leisure and VFR (visiting friends and relatives) travellers. Both categories could see numbers rebound sharply as travel restrictions are lifted. Gains for Flughafen Zurich (+9%) reflected its valuable property/retail assets, improving regulatory environment and prudently managed balance sheet, as well as the resilient Swiss economy.

European toll road operators fared well. Atlantia (+18%) increased after the appointment of technocrat Mario Draghi as Italy's Prime Minister led to hopes that ongoing negotiations to sell ASPI, Atlantia's Italian motorway network, may soon reach a rational conclusion. French peers Eiffage (+14%) and Vinci (+12%) announced better than expected earnings numbers for the December quarter, highlighting the resilience of their integrated concession-contracting model. Their contracting businesses have largely returned to pre-pandemic activity levels and margins, despite various lockdowns curtailing traffic for roads and airports.

Passenger rail stocks West Japan Railway (+17%) and East Japan Railway (EJR) (+14%) also delivered strong gains, despite an extension of the coronavirus-related State of Emergency for areas including Tokyo and Osaka; and a 7.1 magnitude earthquake temporarily disrupting operations in EJR's service territory. Investors focused instead on Japan's lower daily coronavirus case numbers, and upbeat commentary from EJR on the expected pace of passenger recovery over the medium term.

The worst performing stock in the portfolio was UK electric utility SSE (-11%), owing to higher bond yields and cooling market sentiment towards renewables. SSE Renewables, the group's green energy arm, plans to build wind farms in continental Europe, the US and Japan over the next decade. US electric utilities including Eversource Energy (-9%), NextEra Energy (-9%) and Xcel Energy (-8%) also underperformed in this environment.

Freezing temperatures affected some utilities' Texas operations. Exelon (-7%) noted that three of its gas-fired power plants in Texas failed to perform during the recent cold weather, which will have a financial impact for the company. CenterPoint Energy (-7%), which provides electricity to the Houston area, lagged on the view that input costs are likely to have spiked in February. The company's regulated business model means that it should be able to recover those costs from customers, over time.

Better performers in the utilities space included China Gas (+14%), which rallied on investor enthusiasm for the company's ambitious growth targets. Natural gas is expected to play an important role in the reduction of coal consumption in China's upcoming Five Year Plan. Regulated US utility FirstEnergy (+9%) also rallied after it was revealed that activist investor Carl Icahn, who has a successful track record of encouraging company management teams to implement shareholder-friendly measures, was planning to acquire a stake in the company.

Fund activity

The Fund initiated a position in Republic Services, the second largest waste company in the US. Run by an experienced and highly regarded management team, the company's essential service operations are focused primarily in the Midwest. It owns its landfill sites, giving it a vertically integrated structure with high barriers to entry. The company also has strong pricing power; over half of its revenues are linked to inflation, and its contracts typically feature escalators (automatic price increases) of over 3% per annum. A pullback in its share price since mid-November provided us with an attractive entry point for this company's stable, low risk cash flows.

Brazil's largest toll road operator CCR was also added to the portfolio. Share price underperformance over the past year appears less related to company fundamentals (road traffic volumes have been resilient) than a reaction to Brazil's elevated political / country risk (high coronavirus case numbers / the recent appointment of a retired army general to head the state-run oil firm Petrobras). With vaccines now being distributed, country risk concerns should ease in the medium term – to the benefit of CCR's valuation multiples.

US tower operator Crown Castle was divested following strong gains over the portfolio's holding period. Exposure to the towers' structural growth theme has been maintained via the portfolio's substantial holdings in American Tower and SBA Communications.

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

The outlook for the asset class is positive. Government attempts to improve weak economic fundamentals through infrastructure and green energy stimulus plans are likely to benefit many global listed infrastructure firms. In particular, the ongoing repair and replacement of old energy transmission and distribution grids, along with the accelerating build-out of renewables, should represent a steady source of utility earnings growth over long time frames.

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

These growth opportunities were highlighted this month. Warren Buffett's annual shareholder letter noted the material transmission growth opportunities being pursued by Berkshire Hathaway's utilities; while Bill Gates' new book "How to Avoid a Climate Disaster" notes the crucial role that upgraded transmission infrastructure has to play in responsibly addressing climate change.

As vaccine programs ramp up, there is also scope for a recovery in traffic / passenger volumes across coronavirus-impacted infrastructure sectors such as toll roads, airports and passenger rail.

From a relative perspective, a slow or uneven economic recovery would favour structural themes – such as investment in mobile telecom networks to support increasing demand for mobile data – over cyclical growth opportunities. We also note that financial market pessimism towards global listed infrastructure and optimism towards higher risk assets has driven an increase in intrinsic value across the asset class. This bodes well for future global listed infrastructure performance.

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