Global Listed Infrastructure Fund
Monthly update

First Sentier Investors

Monthly Update | May 2021

For professional clients only

Market review

Global Listed Infrastructure dipped in May, after strong gains in previous months. The FTSE Global Core Infrastructure 50/50 index fell -2.1%, while the MSCI World index^ ended the month -1.2% lower.

The best performing infrastructure sector was Pipelines (+3%), reflecting exceptionally strong March quarter earnings numbers, a disciplined approach to capex spending, undemanding valuation multiples and a higher oil price. The worst performing infrastructure sectors were Electric Utilities (-2%), Multi-utilities (-1%) and Water Utilities (flat) as investors sought higher beta market segments.

The best performing infrastructure region was Latin America (+5%), which was led higher by its transport infrastructure stocks. Asia ex-Japan (+4%) also rose as investor enthusiasm for Chinese gas utilities' structural growth and government support resulted in strong share price gains. The worst performing infrastructure region was Australia / NZ (-3%). New lockdown measures in the Australian state of Victoria, implemented following a fresh coronavirus outbreak, weighed on the region's airports and toll roads.

Fund performance

The Fund returned -1.4% after fees in May[1], 66 bps ahead of the FTSE Global Core Infrastructure 50/50 Index (GBP, Net TR)

Annual Performance (% in GBP) to 31 May 2021

Period	12 mths to 31/05/2021	12 mths to 31/05/2020	12 mths to 31/05/2019	12 mths to 31/05/2018	12 mths to 31/05/2017
First Sentier Global Listed Infrastructure Fund B GBP Acc	2.2	1.3	16.7	-4.3	33.2
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	2.0	-0.3	18.9	-2.3	30.1
MSCI World Net Total Return Index GBP	22.3	8.9	5.3	8.2	31.3

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.

The best performing stock in the portfolio was CCR (+14%), Brazil's largest toll road operator, which rallied on increasing recognition of the substantial growth opportunities presented via the privatisation (and subsequent expansion) of Brazilian road, airport and rail assets. Brazil's infrastructure minister noted this month that as a result of these initiatives, US$50 billion worth of investment is likely to have been contracted for the much-needed modernisation of Brazil's infrastructure by the end of 2022.

[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 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.

Mexican airport operator ASUR (+6%) gained as the release of their April traffic showed the company continued to see a strong passenger recovery. The company is expected to benefit from increasing tourist volumes as the US vaccination rollout progresses. Data from the US TSA showed that nearly 2 million passengers were screened at US airports on the Friday before the Memorial Day long weekend - the highest number since the pandemic began.

The portfolio's energy infrastructure holdings outperformed, led by US Liquefied Natural Gas (LNG) exporter Cheniere Energy (+10%). March quarter earnings numbers were 40% ahead of consensus, reflecting continued strength in global LNG market fundamentals. Magellan Midstream Partners (+8%) rallied on upgraded earnings guidance and the prospect of volume recovery for its refined products pipelines.

European transport infrastructure delivered mixed returns, with toll roads outperforming airports. French toll road operators Eiffage (+2%) and Vinci (+2%) performed well as French lockdowns were eased, and traffic on other French toll roads recovered towards pre-pandemic levels. However Flughafen Zurich (-3%) and AENA (-1%) lagged as the spread of a new coronavirus variant in the UK, along with a relatively restrictive new set of rules for UK travellers, caused investors to take a cautious approach to some European airports.

The worst performing stock in the portfolio was US electric utility and renewables leader NextEra Energy (-6%), which underperformed as investor focus turned to assets with most sensitivity to near-term recovery. The company is still positioned to benefit from the longer term theme of decarbonisation and large-scale renewables build-out throughout the US over coming years (further details shown below). Large-cap peers Eversource Energy (-5%) and Dominion Energy (-5%) also lagged in this environment, despite reasonable valuations and solid company fundamentals. In contrast CenterPoint Energy (+4%) fared better after the Texas senate passed legislation which should support additional capex investment opportunities for its Houston electric utility business.

Australian freight rail operator Aurizon (-4%) underperformed on mounting investor concerns that structural headwinds to demand for coal exports may affect its growth prospects. Our analysis suggests that at current valuation multiples (8% dividend yield, 7x EV/EBITDA, strong free cash flow), investors are being compensated for this longer term risk.

Fund activity

The Fund initiated a position in Duke Energy, a large-cap, North Carolina-based utility with 7.8 million electric customers in six states and 1.6 million natural gas customers in five states. Its forecast rate base growth of 6% per annum until 2024 is expected to support earnings growth of between 4% and 6% per annum. Activist investor Elliot Investment Management is reported to have built a stake in the company and to be seeking to "add directors to its board and possible other actions to boost its stock price". Having agreed to sell a 20% stake in its Duke Indiana subsidiary for a price well above its listed valuation multiples earlier this year, Duke may now be encouraged by Elliot to carry out further shareholder-friendly measures over coming months.

A holding in US Pacific Northwest electric utility Portland General Electric was divested after a period of strong outperformance reduced mispricing and moved the stock to a lower position 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.

Toll roads represent the portfolio's largest sector overweight. We believe these companies represent exceptional value at current levels. Traffic volumes have proved more resilient than those of other transport infrastructure assets; and toll roads are leading a return to normal demand levels as vaccine programs are rolled out. Using Sydney as a case study, data over 2020 and early 2021 has shown that whilst working from home (WFH) has clearly impacted central business district (CBD) office occupancy (consistent with anecdotal evidence of 2-3 days in the office and surveys of a desire to spend some time working from home), the impact on toll road traffic is much less pronounced. In fact, on certain roads, traffic is back to pre-pandemic levels.

The portfolio is also overweight Gas Utilities, The portfolio's holdings in this sector consist of a Chinese operator benefitting from central government support for the transition to cleaner fuels; a Japanese gas utility trading at deep value, and specialist US and European names operating from strong strategic positions within niche markets.

The portfolio has an underweight exposure to Multi / Electric Utilities, as some utilities are traded at levels where limited mispricing is evident. That said, a substantial portion of the portfolio consists of high conviction positions in this space, with a focus on higher quality assets, material scope for capex-related earnings growth, or clear mispricing.

An underweight exposure to the Pipelines sector has been maintained. While the sector has delivered solid gains in recent months, we remain conscious of the structural headwinds that these companies could face as Net Zero initiatives gather pace.

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

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