Global Listed Infrastructure Fund (Irish VCC)
Monthly update

First Sentier Investors

Monthly Update | December 2020

For professional clients only

Market review

Global Listed Infrastructure ended the year on a mixed note. Surging coronavirus case numbers tempered vaccine hopes and the prospect of a more substantial US stimulus package. The FTSE Global Core Infrastructure 50/50 index rose +1.3%, while the MSCI World index^ ended the month +4.2% higher.

The best performing infrastructure sector was Railroads (+3%), as Japanese bullet train operators gained on appealing valuations and optimism for future passenger rail volumes. Airports (+2%) also rose on hopes that a coronavirus vaccine rollout would enable the start of a return to normality for the sector.

The worst performing infrastructure sector was Towers / Data Centres (-3%), on the view that higher-than-expected prices at the latest 5G spectrum auction could leave telecom companies with less capital for network investment. Pipelines (-2%) also lagged after a very strong November.

The best performing infrastructure region was Latin America (+6%), as Brazil's utilities and Mexican airports continued to gain on hopes for a recovery from 2020's coronavirus-related economic downturn. The worst performing infrastructure region was Australia / NZ (-2%), owing to mounting trade tensions between Australia and China; and a fresh coronavirus outbreak in New South Wales.

Fund performance

The Fund returned -0.7% after fees[1] in December, 204 bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Annual Performance (% in USD) to 31 December 2020

Period	12 mths to 31/12/2020	12 mths to 31/12/2019	12 mths to 31/12/2018	12 mths to 31/12/2017	12 mths to 31/12/2016
First Sentier Global Listed Infrastructure Fund ID USD	-3.5	24.3	-8.3	17.2	11.7
FTSE Global Core Infrastructure 50/50 Index Net TR USD*	-4.1	25.1	-4.0	18.4	11.3
MSCI World Net Total Return USD	15.9	27.7	-8.7	22.4	7.5

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.

[1] Performance is based on the VCC Class VI Acc share class, expressed in USD, net of fees.
^ MSCI World Net Total Return Index, USD.
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 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 US regulated electric utility FirstEnergy (+15%), which rallied on the view that the market had over-reacted to July's news of a corruption case involving nuclear plant subsidies. The company's sale of competitive power generation assets in recent years to focus on its regulated transmission and distribution utility businesses has resulted in a more predictable earnings profile, giving scope for its valuation multiples to expand further from current levels.

Other strong performers in the US electric utility space included NextEra Energy (+5%) on continued market enthusiasm for the green energy transition; and Exelon (+3%), which sold its portfolio of solar assets for US$810 million. The price equates to US$2,250 per kilowatt (KW) of generation capacity, compared to our modelled valuation of US$1,500/KW for these assets. Positively, the move also signals that Exelon is progressing along the path of separating its substantial portfolio of generation assets from its regulated utilities.

Japanese passenger rail holdings West Japan Railway (+13%) and East Japan Railway (+6%) increased on mounting hopes for a passenger recovery in 2021 once coronavirus vaccines are rolled out across Japan. The portfolio's airport operators ASUR (+9%), AENA (+4%) and Flughafen Zurich (+1%) also gained on the view that passenger numbers could increase over the course of the next year.

UK electric utility SSE (+12%) continued its strong run, reflecting a growing recognition of the substantial wind power investment opportunities available to this firm. A broadly positive Final Determination for RIIO-2 (the regulated price framework that will apply to the country's gas and electricity transmission utilities for the next five years) provided an additional tailwind to its share price.

Regulatory decisions also supported Chinese water utility Guangdong Investment (+8%), which rallied after the announcement of favourable terms for its water sales to Hong Kong over the next three years. The same mechanism will also apply for the following two three-year periods, giving the company a total of nine years of regulatory certainty. Gas utility China Gas (+8%) rose after reporting a strong set of interim earnings results at the end of November.

The worst performing stock in the portfolio was Western Canadian pipeline operator Pembina Pipeline (-8%). Concerns for the structural headwinds facing fossil fuel-related businesses overshadowed the announcement of in-line earnings guidance for 2021. The company's prudent approach to capital management offers scope to reduce debt or buy back shares.

An underwhelming response to the Initial Public Offering (IPO) of Dalrymple Bay Infrastructure (not in our Focus List) which handles around a third of Queensland's coal exports, weighed on sentiment towards Australian freight rail operator Aurizon (-8%). US multi-utility CenterPoint Energy (-7%) also lagged as it continued to seek a buyer for its stake in the Enable Midstream Partners pipeline business.

Following sharp gains in November, European toll road operators Vinci (-5%), Eiffage (-4%) and Atlantia (-4%) underperformed as higher coronavirus case numbers in Europe and the return of increasingly strict lockdown measures led to concerns for lower traffic volumes.

Fund activity

The Fund sold its position in Mexican pipeline company IEnova after US multi-utility Sempra Energy (+1%, not owned) announced it would acquire the outstanding shares.

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 outlook for the asset class is positive. Interest rates appear set to remain at low levels for a sustained period of time, which should prove supportive of defensive and interest-rate sensitive sectors such as utilities and towers.

Government attempts to improve weak economic fundamentals through infrastructure and green energy stimulus plans are also 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.

A slow or uneven economic recovery would also favour structural themes – such as investment in mobile phone networks to support ever-increasing demand for mobile data - over cyclical growth opportunities.

Further, while the timing remains hard to predict, there is also scope for gradual recovery in traffic / passenger volumes for coronavirus-impacted infrastructure sectors such as toll roads, airports and passenger rail, as vaccines are delivered.

In addition, financial market pessimism towards global listed infrastructure over the past year - and optimism towards higher risk assets – has driven an increase in intrinsic value opportunities across the asset class, which bodes well for global listed infrastructure performance in 2021.

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

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