Global Listed Infrastructure Fund (Irish VCC)
Monthly update

Monthly Update | June 2021

For professional clients only

Market review

Global Listed Infrastructure delivered mixed returns in June, as economic reopening optimism was tempered by coronavirus variant concerns. The FTSE Global Core Infrastructure 50/50 index dipped -1.1%, while the MSCI World index^ ended the month +1.5% higher.

The best performing infrastructure sector was Towers (+6%), on the view that the rollout of next-generation networks would be supportive of tower earnings growth. Lower bond yields provided an additional tailwind to these interest rate sensitive companies. Pipelines (+5%) also gained against a backdrop of higher energy prices and increasing hydrocarbon demand.

The worst performing infrastructure sector was Multi-utilities (-3%), as investors sought assets with more sensitivity to increasing levels of economic activity. In the Railroads (-2%) sector, Japanese passenger rail operators gained as the country's vaccine rollout accelerated. However North American freight rail stocks lagged despite consistently strong volumes, on concerns that unusually hot weather in the US and Canada may affect Agriculture haulage volumes.

The best performing infrastructure region was Canada (+3%), led higher by substantial gains for its pipeline operators. The worst performing infrastructure region was Latin America (-2%), reflecting underperformance from Brazil's utility stocks.

Fund performance

The Fund returned -2.0% after fees[1] in June, 89 bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Annual Performance (% in USD) to 30 June 2021

Period	12 mths to 30/06/2021	12 mths to 30/06/2020	12 mths to 30/06/2019	12 mths to 30/06/2018	12 mths to 30/06/2017
First Sentier Global Listed Infrastructure Fund ID USD	17.2	-6.7	12.4	-0.9	11.4
FTSE Global Core Infrastructure 50/50 Index Net TR USD*	18.5	-8.0	15.5	2.8	9.9
MSCI World Net Total Return USD	39.0	2.8	6.3	11.1	18.2

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.

[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.

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. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies. 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:** tthe 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 tower operator SBA Communications (+7%), which increased along with its domestic and international peers American Tower (+6%) and Inwit (+4%). The tower industry is benefitting from continued network investment in 5G to cope with rising data consumption. Ericsson's June Mobility Report reported 46% year-on-year growth in mobile network data traffic globally.

The portfolio's pipeline holdings delivered positive returns. Natural Gas Liquids-focused Enterprise Products Partners (+2%) increased on the appeal of its highly integrated asset footprint, strong balance sheet and attractive valuation multiples, including a ~7.5% dividend yield. Liquefied Natural Gas exporter Cheniere Energy (+2%) continued its strong run of performance, aided by keen demand from Asian customers. The stock is uniquely positioned to benefit from the key role that natural gas is expected to play as a transition fuel over coming decades. The ongoing bidding war between Pembina Pipeline (+2%) and alternative asset manager Brookfield for Canada's Inter Pipeline (+15%, not held) further illustrated the keen demand for energy infrastructure assets.

Australian infrastructure stocks also performed well. Transurban (+4%) was supported by the continued resilience of traffic volumes on its networks of Australian and North American toll roads, in addition to lower bond yields. Freight rail operator Aurizon (+3%) held a well-received Investor Day, highlighting significant operational efficiency improvements; and outlining plans to expand its bulk haulage business (iron ore, cement, metals, grain, livestock) in order to mitigate the medium term decline in thermal coal haulage volumes.

The worst performing stock in the portfolio was China Gas (-18%). The company's share price fell sharply after a fatal gas explosion in a residential neighbourhood in central China's Shiyan City. It was the first major gas accident faced by China Gas in over 20 years. Preliminary reports suggest the operator, a Joint Venture company partly owned by China Gas, failed to conduct the required safety checks. In previous accidents at other gas utilities, responsibility has been borne at JV level rather than by the group-level company. We expect a similar outcome for China Gas in this case.

US utilities underperformed despite solid fundamentals, moderating bond yields and a lack of material company-specific news. Laggards in this space included Xcel Energy (-6%), Avista (-6%), Pinnacle West (-3%) and Dominion Energy (-3%). Factors that should prove supportive of the sector over the medium term include regulatory frameworks with scope for allowed returns to be raised if inflation increases; and structural earnings growth from the replacement of fossil fuels with cheaper, cleaner renewables.

European transport infrastructure also lagged as the spread of the Delta coronavirus variant threatened to weigh on the continent's summer tourism volumes. These concerns affected toll road operators Eiffage (-5%) and Vinci (-3%), as well as airport operators Flughafen Zurich (-4%) and AENA (-4%). Italy's Atlantia (-5%) also lagged, despite announcing that part of the €8 billion proceeds of its sale of the Italian motorway concession ASPI would be used to fund a share buy-back of between €1 and €2 billion (7% - 15% of its market capitalisation) next year, in addition to a dividend payout of €600 million (a 4.5% yield) each year between 2022 and 2024.

Fund activity

The Fund divested its holding in regulated US electric and gas utility NiSource after a period of strong performance saw it move 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.

A key question for investors is whether current rising prices are a transitory phenomenon, or whether the global economy is now about to embark on a sustained period of higher inflation. Infrastructure assets are typically able to increase prices in line with inflation. This can be achieved via the terms of their regulatory frameworks, concession agreements or customer contracts; or in some cases by operating from a strong strategic position with limited competition. Accordingly, infrastructure assets can often maintain and grow earnings in real terms, supporting a stable and growing distribution yield over time. This history gives us confidence that listed infrastructure would fare relatively well in the event of a higher inflation environment.

The asset class is also set to benefit from a number of other positive drivers. Government attempts to bolster economic fundamentals through infrastructure and green energy stimulus plans are likely to prove supportive of 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 many years.

Ever-increasing demand for mobile data / connectivity continues to underpin steady earnings growth for Towers and Data Centres, insulating them from the ebbs and flows of the broader global economy. There is also scope for a material recovery in traffic / passenger volumes across coronavirus-impacted infrastructure sectors such as toll roads, airports and passenger rail, as vaccine programs ramp up globally.

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