Global Listed Infrastructure Fund (Irish VCC)
Monthly update

First Sentier Investors

Monthly Update | November 2021

For professional clients only

Market review

Global Listed Infrastructure gave up ground in November as news of a potentially more infectious coronavirus variant, and indications that the US Federal Reserve may start to reduce monetary stimulus measures sooner than expected, weighed on financial markets. The FTSE Global Core Infrastructure 50/50 index returned -3.3%, while the MSCI World index^ ended the month -2.2% lower.

The best performing infrastructure sector was Water / Waste (+1%) as investors sought defensive exposure. Toll Roads (+1%) also held up well, with Asia-Pacific operators tending to outperform European peers.

The worst performing infrastructure sector was Pipelines (-6%), on concerns that the Omicron coronavirus variant may hinder the global economic recovery and reduce demand for energy. Airports (-6%) underperformed as strong October passenger volumes were overshadowed by an uncertain outlook for global mobility, as a number of countries tightened travel restrictions.

The best performing infrastructure region was the UK (+7%), reflecting gains from its utility stocks. The worst performing infrastructure region was Canada (-5%) owing to underperformance from its pipelines.

Fund performance

The Fund returned -3.3 % after fees[1] in November, in line with the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Annual Performance (% in USD) to 30 November 2021

Period	12 mths to 30/11/2021	12 mths to 30/11/2020	12 mths to 30/11/2019	12 mths to 30/11/2018	12 mths to 30/11/2017
First Sentier Global Listed Infrastructure Fund ID USD	4.9	0.5	15.2	-4.1	18.7
FTSE Global Core Infrastructure 50/50 Index Net TR USD*	8.5	-1.3	15.7	-1.7	23.2
MSCI World Net Total Return USD	21.8	14.5	14.5	0.1	23.7

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. 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 CCR (+8%), Brazil's largest toll road operator. Having underperformed in recent months on concerns for country / political risk and rising interest rates, the stock gained as investors identified value. Traffic volumes on its toll road network remain robust, running close to or exceeding 2019 levels. In the medium term CCR is well positioned to benefit from the country's efforts to privatize and improve its roads, airports and passenger rail networks. Chinese peer Jiangsu Expressway (+3%), whose assets include the main road between major cities Shanghai and Nanjing; and Transurban (+2%), Australia's dominant toll road operator, also outperformed.

However, French-listed Vinci (-9%) and Italy's Atlantia (-3%) sold off, reflecting swift decisions by several European countries to tighten travel restrictions in an effort to slow the spread of Omicron; and both companies' exposure to the Airports sector. Pleasingly, both stocks have recovered some ground in the early part of December.

The portfolio's water utilities including Guangdong Investment (+6%) performed well in this environment. Guangdong's core business involves supplying water to Hong Kong within a regulated framework, under a concession agreement that runs until 2030. Severn Trent (+5%), which provides drinking water to over eight million people across central England and mid-Wales, rose on the appeal of its regulated business model, stable cash flows and inflation-linked dividend. The company also increased guidance for its Outcome Delivery Incentives – a measure used by the regulator to monitor the company's performance against customer-focused criteria such as water quality and supply interruptions.

Towers / data centres delivered mixed returns. Italian tower company operator Inwit (+6%) rallied after an €11 billion (US$12.5 billion) bid for co-controlling shareholder Telecom Italia boosted sentiment about M&A in the European communications sector. US peer American Tower (-7%) lagged following a sceptical market reaction to its US$10 billion takeover of data centre operator CoreSite (+20%, not held). American Tower expects the deal to provide value creation opportunities, owing to the growing overlap between towers and data centres in a 5G and cloud-based world. The portfolio's other communications infrastructure holding, SBA Communications (flat), was steady in falling markets.

The worst performing stock in the portfolio was China Gas (-28%), as a lower number of new residential connections and increased safety spending resulted in lower-than-expected half year profits. This news follows a number of other headwinds for the stock including a growing focus on China political / country risk, a slowdown in China's property sector, and two gas pipeline accidents earlier in the year. While this earnings result has disappointed, the company will continue to play a central role in the Chinese government's policy of replacing coal with cleaner sources of energy.

The general risk-off mood continued to weigh on specialist energy supply and storage operator Rubis (-12%), which has a presence in a range of developed and emerging economies. At current valuation multiples, we believe the market has also taken an overly negative view of this company's prospects, and of the essential role its assets play within a number of niche markets against limited competition.

The other main area of weakness in the portfolio came from its airport holdings. AENA (-9%), Flughafen Zurich (-7%) and ASUR (-5%) fell on concerns that the Omicron coronavirus variant would affect passenger volumes. West Japan Railway (-9%) also underperformed after Japan introduced particularly stringent travel restrictions at the end of the month, closing its borders to all overseas travellers.

Fund activity

The Fund added a holding in US utility Sempra Energy. The company's assets include electric and gas utility businesses in Southern California (San Diego Gas & Electric and SoCalGas); Texas' largest electric transmission and distribution company (Oncor); and Sempra Infrastructure, which develops and operates natural gas transportation networks and liquefaction facilities in the US and Mexico. Sempra's unfashionable conglomerate structure has contributed to a sustained period of share price underperformance. The company now trades at a discount to peers, presenting an appealing entry point to its high quality collection of underlying assets.

The Fund also initiated a position in energy infrastructure company DT Midstream, whose modern and reliable networks are focused on North America's most prolific natural gas basin (the Marcellus / Utica); and the fast-growing Texas / Louisiana Haynesville basin. Spun off from its utility parent company DT Energy in July 2021, the newly independent entity is run by an experienced and well-regarded management team. Forecast production growth in the Haynesville basin and steady demand from existing customers are expected to underpin healthy earnings growth into the medium term. This growth potential could also make the company an acquisition target for mature, lower growth peers.

The Fund increased its exposure to toll roads by initiating a position in Australian-listed Atlas Arteria. The company's main asset is a ~30% stake in central French toll road APRR, a ~2,300km motorway network which connects major French cities including Paris and Lyon. Atlas also owns two smaller assets - the Dulles Greenway toll road in Virginia, and Warnow Tunnel in Germany. Long distance toll road traffic volumes in Europe have largely recovered to pre-pandemic levels. The continuing rollout of coronavirus vaccinations and the recent development of anti-viral pills by Merck and Pfizer are likely to provide additional momentum to the return to the office and commuter traffic volumes, despite the emergence of the Omicron variant.

Data centre operator CyrusOne was divested after accepting a US$11.5 billion takeover bid from private equity firm KKR and fund manager Global Infrastructure Partners. The transaction is the third acquisition within the data centre space this year, alongside the previously mentioned takeover of CoreSite by American Tower, which was announced on the same day; and the US$10 billion purchase of QTS in August 2021 by alternatives-focused investment manager Blackstone. Large-cap regulated US electric utility Duke Energy was sold during the month. Following several positive developments over the past year, including settling rate cases in North Carolina and Florida, and raising capital via the sale of a minority stake in its Indiana utility business, greater mispricing is now evident in other US utility names. The Fund sold its holding in Tokyo Gas, Japan's largest natural gas utility. Structural growth challenges in their domestic market and rising input costs are likely to represent a headwind to the company profits.

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

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, via positions in European, Asia Pacific and Latin American operators. We believe these companies represent exceptional value at current levels, with traffic volumes proving significantly more resilient than those of other transport infrastructure assets. While new coronavirus variants have clouded the near term outlook, we remain confident that toll roads will lead a return to normal demand levels as economic activity levels continue to pick up.

The portfolio is also overweight Railroads, primarily via exposure to large cap North American freight rail operators. These firms are unique and valuable franchises. Their wholly-owned track networks are high quality infrastructure assets which can never be replicated. They typically operate under duopoly market conditions, with significant numbers of captive customers such as grain, chemical and auto producers giving them strong pricing power over long haul routes. Improving operating efficiency provides further scope to grow earnings.

The portfolio is underweight Electric / Multi-Utilities. While these companies represent a large segment of the global listed infrastructure universe, and are a good source of yield and defence, some are trading at levels where limited mispricing is evident. That said, a substantial portion of the portfolio still consists of high conviction utility holdings. The portfolio's focus is on companies with the scope to derive steady, low risk earnings growth from rate base investment (replacing ageing distribution networks, upgrading substations, expanding transmission lines); and the replacement of older coal-fired power stations with wind farms and solar power.

The portfolio is also underweight the Airports sector. The emergence of the Omicron variant has underscored how vulnerable airlines remain to coronavirus-related disruption. The portfolio's exposure is focused primarily on higher quality European operators such as Spain's AENA whose passenger mix is tilted towards Leisure and VFR (visiting friends and relatives) travellers. These categories could see numbers rebound sharply as travel restrictions are lifted.