Global Listed Infrastructure Fund
Monthly update

First Sentier Investors

Monthly Update | March 2022

For professional clients only

Market review

Global Listed Infrastructure rallied in March despite elevated inflation levels, tighter coronavirus restrictions in China, and a mounting list of Western sanctions on Russia. The FTSE Global Core Infrastructure 50/50 index returned +9.5%, while the MSCI World index^ ended the month +4.7% higher.

The best performing infrastructure sector was Railroads (+11%), on the view that higher commodity prices would prove supportive of North American freight rail operators. Towers / Data Centres (+11%), which had underperformed in January and February owing primarily to concerns for rising rates, gained ground as investors refocused on these companies' strong fundamentals and structural earnings growth drivers. The worst performing infrastructure sector was Airports (+3%), owing to rising coronavirus case numbers in Europe and the imposition of additional lockdown measures under China's Zero-Covid policy, following an outbreak in Shanghai.

The best performing infrastructure region was the United States (+10%), reflecting strong gains from its utilities, railroads and towers. The worst performing infrastructure regions were Asia ex-Japan (+2%) and Japan (+2%), owing to underperformance from their utilities on concerns for rising input costs. China's lockdown measures represented an additional headwind.

Fund performance

The Fund returned +10.1% after fees in March[1], 62bps ahead of the FTSE Global Core Infrastructure 50/50 Index (GBP, Net TR).

Annual Performance (% in GBP) to 31 March 2022

Period	12 mths to 31/03/2022	12 mths to 31/03/2021	12 mths to 31/03/2020	12 mths to 31/03/2019	12 mths to 31/03/2018
First Sentier Global Listed Infrastructure Fund B GBP Acc	18.3	12.6	-5.5	20.6	-8.5
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	20.0	14.2	-8.6	22.4	-6.8
MSCI World Net Total Return Index GBP	15.4	38.4	-5.8	12.0	1.3

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.

[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.

The best performing stock in the portfolio was US electric and gas utility Sempra Energy (+17%), owing to on an increasingly positive outlook for US Liquefied Natural Gas (LNG) exports. During the month, the US and EU signed an LNG supply agreement aimed at reducing Europe's dependence on imports from Russia. Sempra's assets include the Cameron LNG export facility, located on the Louisiana coast, in addition to fast-growing regulated utility businesses in Texas and California.

The portfolio's other regulated US utilities rallied on the appeal of their predictable earnings profiles and domestically focused operations. Leading performers in this space included CenterPoint Energy (+12%), Entergy (+11%), Evergy (+10%) and Pinnacle West (+10%).

The portfolio's Tower operators also delivered robust gains. US-listed operators SBA Communications (+14%) and American Tower (+11%) were supported by a consistently positive outlook for tower leasing growth, with SBA indicating that 2022's robust levels of leasing activity could extend into 2023. Italian peer Inwit (+12%) rallied as investors were reminded that the stock may represent an appealing target within the consolidating European tower market. During the month, a consortium of investors led by infrastructure investor Ardian submitted an offer to acquire most of Telecom Italia's 30% stake in Inwit, at a substantial premium to Inwit's listed share price.

The worst performing stock in the portfolio was China Gas (-19%). Persistent concerns for a slowing rate of new connections to its gas network, owing to uncertainty in the Chinese property market and a slowing economic growth rate, were exacerbated by additional lockdown measures by the Chinese authorities in an effort to slow the spread of the highly contagious Omicron BA.2 variant.

European utilities represented the portfolio's other area of weakness. Specialist energy supply and storage operator Rubis (-5%) fell on concerns that higher energy prices could affect margins in the near term. While the company has a strong track record of passing higher input costs on to customers, it can take time before these costs are passed on. Italian electric and gas utility Hera (-3%) noted that higher inflation could result in lower economic growth and reduce demand for energy from its customers. Iberdrola (-3%) underperformed as Spain and Portugal were granted permission by the EU to introduce temporary measures to cap electricity prices in the Iberian Peninsula.

Fund activity

A position was initiated in PPL Corp, a regulated US utility whose main assets consist of electric and gas utility businesses in Kentucky and Pennsylvania. In 2021 the company refocused its business on the US, selling UK utility assets (Western Power Distribution) to National Grid and agreeing to acquire the Narragansett Electric Company, a regulated utility business in the Northeast US state of Rhode Island. Regulatory-related delays to the Narragansett acquisition have weighed on the company's share price this year. We believe that the market has overestimated the risks to this transaction, presenting an appealing entry point to the stock. Once completed, PPL will be able to focus on the improvement of its core businesses, with potential to participate in the broader theme of replacing coal-fired generation assets with solar and batteries.

The Fund divested Eversource Energy, a regulated Northeast US utility business with a well-regarded management team. The stock has delivered pleasing gains since its addition to the portfolio at the end of 2018. However its full valuation multiples now appear optimistic, given its relatively low growth service territory. A position in Canadian National Railway was also divested on a relative valuation basis; the stock is now trading at levels above peers and above its own long-term average valuation multiples. We prefer US operators such as Norfolk Southern, which is trading at cheaper multiples, and has greater scope to improve operational efficiency. Hong Kong-listed electric utility CLP Holdings was sold on concerns that energy market turbulence may affect the company's generation asset margins. The proceeds were used to add to some of the portfolio's higher conviction holdings, some of which had traded to appealing levels during recent heightened market volatility.

Market outlook and Fund positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, railroads, utilities and renewables, energy midstream, wireless towers and data centres. 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. Toll roads are also likely to fare relatively well in a higher inflation environment. Many toll roads have concession agreements that specify how prices can be increased, with an option to follow the inflation rate or an agreed percentage – whichever is higher.

A substantial portion of the Fund consists of high conviction Utility / Renewables holdings. The Fund's focus is on companies with the scope to derive steady, low risk earnings growth by replacing old fossil fuel power plants with solar and wind farms, and by upgrading and expanding the networks needed to connect these new power sources to the end user. Technology advances and lower costs for utility-scale battery storage will enable renewables to represent an ever-greater share of the overall electricity generation mix. In the medium term, the roll-out of electric vehicles is then expected to provide an additional boost to utilities – first via investment opportunities associated with linking EV charging stations to the grid; and then via higher overall demand for electricity.

The portfolio is underweight the Airports sector. The emergence of the Omicron variant underscored how vulnerable many airlines remain to coronavirus-related disruption. As a result, we favour shorter haul, leisure-exposed airports, particularly European airports with large intra-Europe exposure where border restrictions are likely to be less cumbersome. We expect to see a strong rebound in traffic at airports such as Spain's AENA, as travellers look to catch-up with friends and family or take a holiday.

An underweight exposure to the Energy Midstream sector has been maintained. Strong gains across the sector during the past year have moved these stocks to lower rankings within our investment process; and we remain conscious of the structural headwinds that many of 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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