Global Listed Infrastructure Fund
Monthly update

First Sentier Investors

Monthly Update | February 2022

For professional clients only

Market review

Global Listed Infrastructure delivered resilient performance against a backdrop of market turbulence triggered by Russia's invasion of Ukraine, and the resulting swathe of financial and economic sanctions imposed on Russia by western governments. The FTSE Global Core Infrastructure 50/50 index returned -0.4%, while the MSCI World index^ ended the month -2.5% lower.

The best performing infrastructure sector for a second consecutive month was Energy Midstream (+6%) following strong December quarter earnings numbers. Rising energy prices, reflecting the view that sanctions would impede Russia's oil and natural gas exports, provided the sector with additional support. Airports (+2%) gained on healthy earnings numbers, the lifting of international travel restrictions and isolation requirements, and evidence that passenger numbers were recovering as coronavirus case numbers eased from their January peak.

The worst performing infrastructure sector was Towers / Data Centres (-7%) as persistent concerns for higher bond yields in coming months overshadowed the structural growth theme of increasing demand for mobile data. The Federal Reserve is expected to start raising interest rates in March, for the first time since 2018. Similar concerns weighed on the Water / Waste (-3%) sector.

The best performing infrastructure region was Japan (+4%), which is traditionally viewed as a safe haven from equity market volatility. The country's economy grew strongly during the December quarter, after its COVID-19 state of emergency was lifted at the end of September 2021. The worst performing infrastructure region was the United States (-2%) owing to lacklustre returns from mobile towers and some of its large-cap utility stocks.

Fund performance

The Fund returned +0.7% after fees in February[1], 115bps ahead of the FTSE Global Core Infrastructure 50/50 Index (GBP, Net TR).

Annual Performance (% in GBP) to 28 February 2022

Period	12 mths to 28/02/2022	12 mths to 28/02/2021	12 mths to 29/02/2020	12 mths to 28/02/2019	12 mths to 28/02/2018
First Sentier Global Listed Infrastructure Fund B GBP Acc	14.0	-6.1	11.0	13.8	-4.8
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	18.9	-8.4	10.0	15.8	-4.1
MSCI World Net Total Return Index GBP	15.4	18.2	9.0	4.0	6.0

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 Liquefied Natural Gas (LNG) exporter Cheniere (+19%) which rallied after raising earnings guidance for 2022 by 20%, citing the early completion of its latest LNG "train" (large scale natural gas liquefaction and purification facility) and the sustained strength in global LNG markets. This strength is underpinned by growing demand for reliable LNG supplies, particularly given Europe's need to reduce or eliminate its dependence on gas from Russia.

The portfolio's other energy midstream holdings also rose. Pembina Pipeline (+7%), which operates a vertically integrated asset footprint of gathering & processing, fractionation, transportation, storage and export terminals in Western Canada, announced better than expected earnings for the December quarter, aided by the positive operating environment. Enterprise Products Partners (+3%), whose substantial assets include a 50,000 mile pipeline network and 14 billion cubic feet of natural gas storage capacity, announced robust December quarter earnings and noted a likely increase in demand for crude oil, natural gas and Natural Gas Liquids.

Notable performers in the utilities space included UK operator SSE (+8%), which gained on the view that renewables build-out would help to reduce Europe's reliance on Russian oil and gas. In recent years SSE has transformed itself from a fossil fuel-heavy, integrated utility to focus on regulated electricity networks and renewables. US peer Sempra Energy (+4%) announced robust December quarter earnings and forecast earnings growth of between 6% and 8% per annum up to 2026, reflecting the healthy fundamentals of its high quality utility businesses and energy infrastructure assets.

Transport infrastructure achieved generally positive returns, led by PINFRA (+6%) which operates toll road networks focused on Mexico City, one of the world's most congested regions. The company delivered better-than-expected December quarter earnings, aided by a faster-than-expected recovery in traffic on most of its roads. Mexican airport operator ASUR (+6%), whose assets include the concession for Cancun International Airport, also outperformed as strong retail spending (by passengers) and progressive increases in aeronautical tariffs (paid by airlines) underpinned better than expected December quarter earnings.

The worst performing stock in the portfolio was US tower operator American Tower (-10%) owing to concerns for higher interest rates, and as investors focused on the equity raising that is expected to form part of the financing package to pay for last year's acquisition of data centre operator CoreSite. Peer SBA Communications (-7%) also underperformed as concerns for the interest rate outlook outweighed the company's robust fundamentals. Italian peer Inwit (-5%) fared slightly better on continued speculation about the potential for consolidation within the European towers space.

Waste management company Republic Services (-6%) announced disappointing December quarter earnings numbers, as higher wage and fuel costs affected its margins. Over time we expect this impact to ease; waste management contracts are often linked to inflation (or better). A sceptical market reaction to its US$2.2 billion acquisition of hazardous waste specialist US Ecology (+66%, not in our focus list) provided an additional headwind to its share price.

Fund activity

The Fund initiated a position in Danish-listed Ørsted, a leading global renewables developer and operator with a focus on offshore wind. The majority of Ørsted's current projects are located in the North Sea. They include the world's two largest wind farms, Hornsea One (already operational) and Hornsea Two (scheduled for completion in 2022). Built further out to sea than ever before and materially larger than current wind farms, they represent a new generation of offshore power station. The company also has a growing onshore wind and solar business in the United States, and growth ambitions in Asia. Government subsidies or tax incentive structures underpin stable returns from the company's projects over long time frames, regardless of underlying energy market conditions. Rising net zero commitments from governments around the world are expected to underpin structural growth in demand for the company's developments over coming years. After initiating the position, Ørsted's share price spiked as the escalating crisis in Ukraine fuelled investor interest in alternative energy sources to Russian oil and gas.

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.

The portfolio does not hold any Russian listed stocks. However, Russia's invasion of Ukraine could have a number of potential implications for financial markets and the global listed infrastructure asset class.

1) **Russia reduces / cuts gas supply to Europe**
   The most direct impact under this scenario would be on European utilities that source a high proportion of natural gas from Russia. We have long favoured US utilities over their European peers. As a result, the portfolio does not hold any European utilities with a material reliance on Russian natural gas. Our exposure to European utilities is focused on those with the scope to benefit from the build-out of renewables, such as Spain's Iberdrola and Denmark's Ørsted.

   Such a move from Russia would also likely accelerate US LNG exports to Europe, to the benefit of portfolio holdings Cheniere Energy, the largest producer of LNG in the United States and the second largest LNG operator in the world; Sempra Energy, whose assets include Sempra Infrastructure, a developer and operator of substantial natural gas transportation networks and liquefaction facilities in the US and Mexico; and Dominion Energy, whose assets include Cove Point LNG Terminal, on the US Eastern Seaboard.

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

2) Tensions in the region cause global energy prices to rise

The portfolio should be reasonably hedged to this outcome. Rising energy prices would further improve the economics and strategic value of renewables projects, to the benefit of many of the portfolio's utilities / renewables holdings (~46% of the portfolio at the end of February 2022). Higher oil and natural gas prices could also increase growth opportunities for the energy midstream space (7% of the portfolio). Offsetting this to a certain extent, the cost of travel would go up for transport infrastructure stocks such as Toll Roads (15% of the portfolio) and Airports (6% of the portfolio). The risk of political intervention in European power markets (for example where utilities are told to limit customer bill increases) may increase.

3) Geopolitical uncertainty and rising energy prices would likely be a brake on economic growth

This could push out expectations for increases in interest rates, which have been a headwind for infrastructure stocks.

More broadly, while the future remains uncertain, listed infrastructure can offer defensive characteristics in a volatile world. Listed infrastructure companies own and operate tangible assets that are difficult or impossible to replicate. Given the domestic focus of most infrastructure assets, the portfolio's substantial North American exposure should also help to insulate it from events in Eastern Europe.

For further institutional enquiries contact institutionalenquiries@firstsentier.com
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