Global Listed Infrastructure Fund
Monthly update

First Sentier Investors

Monthly Update | July 2022

For professional clients only

Market review

Global Listed Infrastructure delivered strong returns in July, as lacklustre economic data sparked investor hopes that interest rate rises may increase at a slower pace than previously assumed. The FTSE Global Core Infrastructure 50/50 index gained +4.5% while the MSCI World index^ ended the month +7.7% higher.

The best performing infrastructure sector was Railroads (+10%), with North American freight rail operators gaining on improved investor sentiment. The establishment in the US of a Presidential Emergency Board, aimed at averting the risk of a national freight rail strike, was also positive at the margin. The Energy Midstream (+8%) sector climbed against an uncertain geopolitical backdrop. During the month, Russia's state-owned energy company Gazprom reduced the amount of natural gas sent to Europe via the Nord Stream 1 pipeline, pushing gas prices higher and buoying North American Liquefied Natural Gas (LNG) exporters. The worst performing infrastructure sector was Toll Roads (flat). Having performed well during June's market turbulence, the sector paused for breath in July.

The best performing infrastructure region was the United Kingdom (+8%) reflecting a rally in utilities/renewables stocks as wholesale power prices rose. The worst performing infrastructure region was Japan (-2%) as the prevailing "risk-on" mood saw investors favour higher beta sections of the market.

Fund performance

The Fund returned +4.3% after fees in July[1], -23bps behind its benchmark index.

Annual Performance (% in GBP) to 31 July 2022

Period	12 mths to 31/07/2022	12 mths to 31/07/2021	12 mths to 31/07/2020	12 mths to 31/07/2019	12 mths to 31/07/2018
First Sentier Global Listed Infrastructure Fund B GBP Acc	17.9	9.5	-10.9	22.1	-0.2
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	21.5	10.1	-11.3	20.5	2.7
MSCI World Net Total Return Index GBP	3.8	27.5	0.0	11.0	12.4

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 base currency of the share class, the return may increase or decrease as a result of currency fluctuations.

Performance data 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. First Sentier Global Listed Infrastructure Fund, Class B (Accumulation) GBP shares. Benchmark is the FTSE Global Core Infra 50/50 TR Index from 1 April 2015, prev. UBS Global Infra & Utilities 50/50 TR Index. ^MSCI World Index (GBP) is provided for information purposes only. Index returns are net of tax. Data to 30 June 2022. Source: First Sentier Investors UK Funds Limited/Lipper IM.

[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 Targa Resources (+16%), which processes and transports Natural Gas Liquids such as propane and butane for use in US and international markets. The stock benefitted from a supportive operating environment, characterized by strong commodity prices and robust volumes. Other holdings in the Energy Midstream space also outperformed. Liquefied Natural Gas exporter Cheniere Energy (+12%) announced two large new contracts to supply LNG to Asian counterparties over the next 20+ years. Gains for DT Midstream (+12%) reflected its relatively undemanding valuation multiples, and its exposure to the fast-growing Texas / Louisiana Haynesville shale gas basin.

Channel Tunnel operator Getlink (+16%) announced healthy earnings results for the first half of 2022. The easing of Covid-19-related border crossing and quarantine restrictions between Britain and France saw travellers return to its car and truck shuttle, and to the Eurostar passenger rail service. Company revenues were also boosted by its new ElecLink unit, a cable inside the Channel Tunnel which enables electricity exchange between the UK and France. US east coast freight railroad holdings CSX Corp (+11%) and Norfolk Southern (+11%) delivered pleasing returns. While June quarter earnings indicated that operational metrics remain challenged by labour shortages, both companies continued to demonstrate strong pricing power and expressed confidence in their ability to hire and train additional workers as the year progressed.

Danish renewables operator Ørsted (+14%) and UK electric utility SSE (+13%), whose assets include a growing offshore wind business, increased on the view that the current higher power price environment would be supportive of earnings. Leading US renewables developer and utility NextEra Energy (9%) was deemed to be one of the largest potential beneficiaries of the recently announced Inflation Reduction Act, which includes measures in support of renewables and low carbon energy sources. The measures are also likely to support other US utility holdings with substantial solar resources, such as Alliant Energy (+5%) and Xcel Energy (3%); and those whose generation fleets include a substantial nuclear component, such as Dominion Energy (+3%) and Entergy (+2%).

The worst performing stock in the portfolio was China water utility Guangdong Resources (-8%) whose assets include the concession to supply water to Hong Kong until 2030. This decline was roughly in line with the performance of the main Chinese stock market, suggesting it was driven more by broader concerns such as the slowing Chinese economy, than by company-specific factors.

Having held up well during June's volatile markets, several of the portfolio's toll road holdings also underperformed. Chinese toll road operator Jiangsu Expressway (-7%) lagged as ongoing COVID-19 restrictions and slowing economic activity levels weighed on traffic volumes. Australian-listed Atlas Arteria (-4%) eased in the absence of fresh news related to its potential takeover by direct infrastructure manager IFM Investors. Mexican peer PINFRA (flat) also trailed rising markets, despite announcing robust June quarter earnings owing both to healthy traffic growth and higher tolls.

Fund activity

The Fund divested its position in UK water utility Severn Trent after it traded up to valuation multiples where limited mispricing was evident; and on concerns that the current regulatory review process for UK water companies may affect sentiment towards the sector in coming months.

Market outlook and Fund positioning

The Fund invests in a range of 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 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.

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. Lack of capacity in the trucking sector (freight rails' main competitor), along with the onshoring of industrial production back to the US, are expected to provide additional drivers of demand for these stocks.

A substantial portion of the Fund consists of high conviction Utilities / 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 Inflation Reduction Act, should it be signed into law, would represent a material tailwind for these themes within the US.

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 may face as Net Zero initiatives gather pace.

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

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