Global Listed Infrastructure Fund (Irish VCC)

Monthly update

First Sentier Investors

Monthly Update | December 2021

For professional clients only

Market review

Global Listed Infrastructure rallied into the year-end, helped by indications that the contagious Omicron variant may prove less economically disruptive than initially feared. The FTSE Global Core Infrastructure 50/50 index returned +7.3%, while the MSCI World index^ ended the month +4.3% higher.

The best performing infrastructure sector was Towers / Data Centres (+11%), aided by the prospect of additional investment into mobile data networks to enable the ongoing 5G rollout. Utilities (+8% to +10%) also performed well as investors identified relative value following a sustained period of underperformance compared to the broader market. The worst performing infrastructure sector, Pipelines (+1%), paused after delivering substantial gains earlier in the year.

The best performing infrastructure region was the United States (+9%), owing to positive returns from its Towers, Utilities and Railroads. The worst performing infrastructure region was Australia / New Zealand (+3%), reflecting relatively muted gains from its transport infrastructure stocks.

Fund performance

The Fund returned +5.6% after fees[1] in December, 167 bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Annual Performance (% in USD) to 31 December 2021

Period	12 mths to 31/12/2021	12 mths to 31/12/2020	12 mths to 331/12/2019	12 mths to 31/12/2018	12 mths to 31/12/2017
First Sentier Global Listed Infrastructure Fund ID USD	11.6	-3.5	24.3	-8.3	17.2
FTSE Global Core Infrastructure 50/50 Index Net TR USD*	14.9	-4.1	25.1	-4.0	18.4
MSCI World Net Total Return USD	21.8	15.9	27.7	-8.7	22.4

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 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 Dallas-based gas utility Atmos Energy (+16%), which serves more than 3 million gas utility customers across eight states as well as managing extensive natural gas pipeline and storage assets. Investors were drawn to its undemanding valuation multiples and healthy regulated earnings growth rate of between 6% and 8% per annum. Lower natural gas prices helped to alleviate concerns that the company may need to pass higher input costs on to its customers.

The portfolio's other North American utilities also delivered pleasing returns. Notable performers included US electric utility Entergy (+12%), whose service area includes portions of Arkansas, Mississippi, Texas and Louisiana. Entergy is well placed to grow earnings via increasing load growth, improving operational efficiencies and a robust capital expenditure program. Electric and gas utility business Sempra Energy (+11%) outperformed after selling a 10% stake in its US and Mexico Liquefied Natural Gas export business to a Middle East sovereign wealth fund for a higher-than-expected US$1.8 billion. The proceeds will be used to buy back stock, and to fund future capital expenditure at its utility business.

Large-cap US tower operators SBA Communications (+13%) and American Tower (+12%) delivered significant gains for the month, reflecting their structural growth attributes and lower sensitivity to coronavirus-related disruption.

The worst performing stock in the portfolio was Brazil toll road operator CCR (-5%). Resilient traffic volumes were overshadowed by the most recent in a series of interest rate rises by Brazil's central bank, as it seeks to counter rising inflation. Though concessions allow for the recovery of inflation in tolls, the long-life nature of CCR's assets make its share price relatively sensitive to interest rate changes. The portfolio's other toll road holdings performed better. European operators such as Vinci (+11%) and Atlantia (+8%) recovered ground lost in November, as concerns about Omicron subsided. Mexican peer PINFRA (+10%) rose on its appealing valuation multiples and conservative balance sheet, as well as an improvement in traffic volumes which have now exceeded pre-pandemic levels.

North American railroads also delivered mostly positive returns. East coast US operators Norfolk Southern (+12%) and CSX (+8%) climbed on the view that effective pricing power will enable them to thrive in the current higher inflation environment. However Canadian National Railway (-4%) lagged following a disappointed market reaction to the news that Jim Vena, an experienced railroading figure previously considered the company's likely next CEO, had withdrawn his candidacy for the position.

Fund activity

The Fund initiated a position in Getlink, operator of the Channel Tunnel – a unique and compelling customer proposition connecting the UK and continental Europe. Getlink has two main revenue streams. Firstly it operates a shuttle service transporting truck and passenger vehicles through the Channel Tunnel via train. Secondly, it charges a levy on a passenger rail service (Eurostar) that uses the tunnel to transport passengers between the United Kingdom and France, Belgium and the Netherlands. With a concession that runs to the year 2086, Getlink is well positioned to benefit from rising traveller confidence and higher economic activity levels once coronavirus disruptions recede.

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 inflation-protected income and strong capital growth over the medium-term.

The outlook for the asset class in 2022 is positive. We remain optimistic about the substantial investment opportunities associated with the decarbonisation of the world's energy needs. Utilities, which represent about a half of the global listed infrastructure opportunity set, are positioned to derive steady, regulated earnings growth by building 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 scale of investment opportunities currently on offer across the utilities space does not yet appear to be fully reflected in valuation multiples.

In addition, there remains scope for further recovery in traffic / haulage / passenger volumes for toll roads, railroads and airports. While the emergence of new coronavirus variants may affect the timing of this recovery, a return to normality is inevitable. Markets are becoming less sensitive to coronavirus news flow as the pandemic progresses, and as vaccines and booster shots are administered. Tollroads have the potential to deliver strong earnings growth as traffic recovers, taking share from public transport. Freight railroads should benefit from a reduction in supply chain disruptions – as congestion eases, high consumer savings and low inventory levels are likely to drive demand. However airports remain potentially vulnerable to changing travel rules, with travellers still showing a clear preference for leisure over business destinations.

From a valuation perspective, a large gap remains between the valuations of public market (listed) and private market (unlisted) infrastructure assets. This gap should provide listed companies with opportunities to sell non-core assets at premiums to their listed valuations. This will enable listed infrastructure companies to strengthen their balance sheets and simplify their core businesses, leading them to trade at higher valuation multiples. Undemanding valuation multiples and still-low interest rates also increase the chance of listed infrastructure M&A activity. This would represent a continuation of the theme seen in 2021, when sovereign wealth funds, private equity, unlisted infrastructure managers and trade buyers alike demonstrated a keen appetite for listed infrastructure companies. More broadly, financial market pessimism towards global listed infrastructure over the past two years, and continued optimism towards higher risk assets, have made the relative value on offer within the asset class vs general equities increasingly compelling.

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

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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.

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