Global Listed Infrastructure Fund (Irish VCC)
Monthly update

First Sentier Investors

Monthly Update | May 2022

For professional clients only

Market review

Global Listed Infrastructure performed well against a volatile market backdrop, fuelled by persistent concerns for higher inflation and lower growth. The FTSE Global Core Infrastructure 50/50 index returned +2.3% in May, while the MSCI World index^ ended the month +0.1% higher.

The best performing infrastructure sector was Energy Midstream (+6%), as a supportive commodity price environment was reflected in strong March quarter earnings numbers. The worst performing infrastructure sector was Railroads (-3%). Concerns about the potential for a US recession later in the year weighed on North American freight rail operators.

The best performing infrastructure regions were Canada (+3%) and the United States (+3%), reflecting strong returns from these regions' utilities and energy midstream stocks. The worst performing infrastructure region was the United Kingdom (-3%), where fears of a windfall tax on energy profits weighed on utilities with power generation assets.

Fund performance

The Fund returned +1.0% after fees[1] in May, 132 bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Annual Performance (% in USD) to 31 May 2022

Period	12 mths to 31/05/2022	12 mths to 31/05/2021	12 mths to 31/05/2020	12 mths to 31/05/2019	12 mths to 31/05/2018
First Sentier Global Listed Infrastructure Fund ID USD	5.0	16.9	-1.1	8.5	-2.0
FTSE Global Core Infrastructure 50/50 Index Net TR USD*	8.5	17.3	-2.2	12.6	0.7
MSCI World Net Total Return USD	-4.8	40.6	6.8	-0.3	11.6

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 I (Distributing) USD 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 Net Total Return Index USD is provided for information purposes only. Index returns are net of tax. Data to 31 May 2022. Source: First Sentier Investors UK Funds Limited/Lipper IM.

[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:** 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 China Gas (+22%), which is positioned to benefit from China's promotion of cleaner energy, in particular through the rollout of coal-to-gas conversion projects in rural areas. The company's share price recovered on the view that the easing of China's coronavirus lockdown measures would boost demand for fuel, including natural gas. A better-than-expected Chinese manufacturing PMI reading for May further buoyed sentiment towards the stock. French-listed Rubis (+11%) also gained as investors took a more positive view of the company's geographically diversified collection of specialist energy supply and storage assets. Robust results for the March quarter included strong volume growth (with volumes now back above pre-pandemic levels) and resilient unit margins.

US utilities represented another area of strength within the portfolio, as investors sought defensive exposure. Arizona's Pinnacle West (+9%) reported benign March quarter earnings numbers. The company's fixed-rate debt and long weighted average debt maturity of over 16 years are likely to represent effective insulation from rising interest rates. Midwest electric and gas utility Alliant Energy (+9%), which is transitioning its energy generation assets towards renewables, ended the month higher. Investors took the view that its longer term earnings growth was unlikely to be affected by the current US investigation into solar panel tariff avoidance, which has recently disrupted the import of solar panels and components from Asia. Pennsylvania-based PPL (+7%) also rallied after receiving the necessary approvals to acquire Rhode Island's primary electric and gas utility, NEC, which will now be known as Rhode Island Energy. While expected, the decision removes an uncertainty overhang from the stock.

The worst performing stock in the portfolio was Mexican toll road operator PINFRA (-9%), which underperformed on concerns that a delay in auditing its financial statements could result in a temporary suspension of trading in its shares. Shortly after the end of the month, the stock gained on the news that an auditor had been appointed to complete the audit process. The portfolios other EM toll roads performed better. CCR (+7%), Brazil's largest toll road operator, announced March quarter earnings in line with consensus and reported a rise of almost 6% in traffic volumes on its toll roads compared to the same period a year earlier. China's Jiangsu Expressway (+4%), whose largest asset is the main highway between Shanghai and Nanjing, gained on reports that Shanghai's coronavirus lockdown measures would be lifted in June.

Eastern US freight rail operators Norfolk Southern (-7%) and CSX (-7%) lagged in the face of ongoing concerns for a weakening economy, after US GDP shrank by a larger-than-expected -1.5% during the March quarter. At recent meetings, freight rail management teams noted that supply chain glitches and a lack of available labour represented near-term headwinds to network fluidity and operating efficiency metrics.

Regulated UK water and wastewater utility Severn Trent (-7%) underperformed on indications of rising operating costs. The firm should fare relatively well in a higher inflation environment, owing to a regulatory framework that links its revenue to the rate of inflation. Electric utility SSE (-5%) endured intra-month volatility on concerns that a 25% windfall tax on oil and gas producers' profits, recently introduced by the UK government, could be extended to companies with electricity generation assets.

Fund activity

Targa Resources, one of North America's largest independent energy midstream companies, was added to the portfolio. Targa's strategically located energy infrastructure footprint is focused around the Permian basin in Texas. The company processes and transports Natural Gas Liquids (such as propane and butane) for use in US and international markets. Having simplified its corporate structure and strengthened its balance sheet over the past two years, Targa now appears well positioned to generate strong free cash flow and carry out additional capital management initiatives, including increasing capital returns to shareholders.

Energy midstream operator Enterprise Products Partners was sold after strong share price gains since the start of the year reduced mispricing and moved the stock to a lower ranking within our investment process.

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.

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.

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.

Underweight exposure to the Energy Midstream sector has been maintained. Strong gains across the sector during the past year

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

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.

The portfolio is also 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.