

First Sentier Global Listed Infrastructure Fund Monthly review and outlook

Monthly Review and Outlook | January 2021

Market review

Global Listed Infrastructure gave up ground in January as a cautious mood prevailed in financial markets, despite the start of global vaccination campaigns. The best performing infrastructure sector was Pipelines (+6%), as robust North American hydrocarbon export volumes and improving commodity prices buoyed investor sentiment. Water / Waste (+1%) also ended the month in positive territory, on the enduring appeal of their defensive characteristics. The worst performing infrastructure sectors were Airports (-7%) and Toll Roads (-5%) as ongoing coronavirus lockdown measures weighed on passenger / traffic volumes, particularly in Europe and Latin America.

The best performing infrastructure region was Japan (+4%). The country's electric utilities rallied due to a surge in wholesale electricity prices, and on speculation that Tokyo Electric Power (+47%, not in our focus list) may be allowed to restart one of its nuclear plants, which have been closed since the Fukushima nuclear disaster in 2011. Gains for Canada (+3%) reflected positive returns from its large-cap pipeline companies. The worst performing infrastructure regions were Europe ex-UK (-6%) and Latin America (-4%), owing to airport and toll road underperformance.

Fund performance

The Fund returned -0.5% after fees in January¹, 92 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was pipeline operator Pembina Pipeline (+12%), whose strategically located energy infrastructure assets provide a range of transportation, fractionation and storage services to Western Canada's oil and gas companies. Investors welcomed news that the company would conserve capital by cancelling a large project, and were drawn to the company's long-term, contracted cash flows and 7.5% distribution yield.

Other energy infrastructure holdings – Enterprise Products Partners (+6%), Cheniere Energy (+5%) and Magellan Midstream Partners (+5%) – also started the year on a positive note. Cheniere has maintained consistent earnings guidance since early 2020, illustrating the integrity of its long term LNG supply contracts and the stability of cash flows in this space. Enterprise, which was able to hold its quarterly distribution payments level throughout 2020 before increasing the amount in January 2021, continued to benefit from strong NGL export momentum. Magellan climbed on the view that a brightening outlook for the US economy would support volumes for its extensive refined products pipeline networks.

China toll road operator Jiangsu Expressway (+4%) reported positive truck traffic momentum on the main motorway between Shanghai and Nanjing (its largest asset) as the Chinese economy continued to recover. Hong Kong electric utility CLP Holdings (+1%) held up well as steady growth for its core Hong Kong business, and the growth potential of renewables in China and India, outweighed a challenging operating environment for its Australian power stations. However water utility Guangdong Investment (-2%) and gas utility China Gas (-11%) both lagged after strong increases in previous months.

December quarter earnings results from Japanese passenger rail operator West Japan Railway (+3%) were largely in line with market expectations. The company reported reasonable progress in reducing costs (a -10% reduction for the final nine months of 2020), but Japan's ongoing coronavirus-related state of emergency continued to limit passenger volumes. Cost cutting measures from larger peer East Japan Railway (flat) were not quite as effective (a -6% reduction for the same period).

The worst performing stock in the portfolio was toll road operator PINFRA (-12%), which lagged after new coronavirus restrictions were introduced in December for Mexico City (where most of the company's roads are located) following a surge in case numbers there. European peers Atlantia (-11%), Vinci (-6%) and Eiffage (-5%) also fell as lockdown measures remained in place across Italy and France. Data from peers indicates that traffic levels on French roads in the December quarter were approximately 25% below the levels seen during the same period a year earlier. However volumes tended towards pre-COVID-19 levels relatively quickly once lockdowns were lifted in 2020.

European airports AENA (-10%) and Flughafen Zurich (-6%) gave up some of their recent gains. The prospect of a summer traffic recovery for these stocks if vaccinations are rolled out successfully was overshadowed by expectations of muted passenger numbers during the March quarter.

Utilities delivered mixed returns as the prospect of extensive US stimulus measures, following the Democrats' Senate win in Georgia, led to a focus on higher bond yields and inflation expectations. This represented a headwind for small and mid-cap US operators such as Avista (-7%) and Pinnacle West (-5%). Larger cap peers with strong renewables credentials such as NextEra Energy (+5%) and Eversource Energy (+1%), along with UK peer SSE (+1%), fared better.

¹ First Sentier Global Listed Infrastructure Fund's cumulative return over one month. The performance of the fund is based on the Singapore unit trust, net of fees, expressed in SGD terms. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

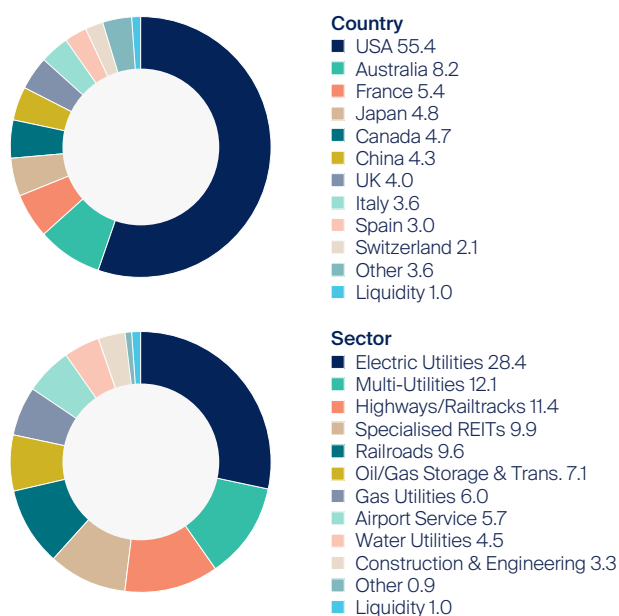
Annualised performance in SGD (%)²

	1 yr	3 yrs	5 yrs	10 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-9.8	3.0	6.4	6.9	4.0
Class A (SGD - H Dist) (Inc initial charges)	-14.4	1.2	5.3	6.3	3.6
Benchmark*	-9.8	5.4	7.7	8.3	4.6

Cumulative performance in SGD (%)²

	3 mths	1 yr	3 yrs	5 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	4.7	-9.8	9.2	36.1	65.5
Class A (SGD - H Dist) (Inc initial charges)	-0.5	-14.4	3.8	29.3	57.2
Benchmark*	4.3	-9.8	17.2	44.6	77.9

Asset allocation (%)²



Top 10 holdings (%)²

Stock Name	Sector	%
Nextera Energy Inc	(Electric Utilities)	6.6
American Tower Corporation	(Specialised REITs)	6.4
Transurban	(Highways/Railtracks)	6.1
Dominion Energy Inc COM	(Multi-Utilities)	4.9
Aena SA	(Airport Services)	3.0
Eversource Energy	(Electric Utilities)	3.0
SBA Communications Corp Class A	(Specialised REITs)	2.8
Emera Inc	(Electric Utilities)	2.7
CenterPoint Energy, Inc.	(Multi-Utilities)	2.7
Alliant Energy Corporation	(Electric Utilities)	2.5

Fund activity

No stocks were added to the Fund during January, and portfolio holdings were generally maintained at existing levels.

Market outlook and fund positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, ports, 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.

Toll roads represent the portfolio's largest sector overweight. We believe these companies represent exceptional value at current levels. Traffic volumes have proved more resilient than those of other transport infrastructure assets; and toll roads are likely to be the first to see a return to normal demand levels as vaccine programs are rolled out. The portfolio is also overweight Towers / Data Centres. Exceptionally strong growth in 2020 from cloud computing leaders Amazon Web Services and Microsoft Azure provided the latest reminder that data mobility / connectivity needs are set to increase further in coming years, to the benefit of the towers and data centres.

A roughly neutral but large absolute exposure to Multi / Electric utilities has been maintained. The resilience and predictability of regulated utility earnings – along with the growth potential associated with the transition to renewables – does not appear to be fully appreciated by listed markets.

The portfolio is underweight the Airports sector. It remains to be seen how quickly consumer behaviour will return to normal. Business travel may never regain previous levels. The decision by Singapore and Hong Kong to delay the launch of an air “travel bubble”, originally scheduled for mid-November but now pushed back to 2021, serves as a reminder of the logistical challenges still facing the sector. The portfolio's exposure is focused primarily on higher quality European operators. An underweight exposure to the Pipelines sector has also been maintained. While the sector has delivered robust gains in recent months, we remain conscious of the structural headwinds that these companies could face as Net Zero initiatives gather pace.

² Source: Lipper & First Sentier Investors. Single pricing basis with net income reinvested. Data as at 31 January 2021. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. First Sentier Global Listed Infrastructure Fund inception date: 3 March 2008.

* From inception - 31 May 08 : S&P Global Infrastructure Index; From 1 Jun 08 - 31 Mar 15 : UBS Global Infrastructure and Utilities 50-50 Index; From 1 Apr 15 : FTSE Global Core Infrastructure 50/50 Index.

Source : Company data, First Sentier Investors, as of end of January 2021

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