First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | June 2023

Market review

Global Listed Infrastructure rose in June, supported by a backdrop of positive investor sentiment.

The best performing infrastructure sector was Energy Midstream (+7%), aided by a positive outlook for natural gas demand. Railroads (+6%) also outperformed. Healthy US economic data points, including strong May employment numbers and a higher-than-expected number of new residential construction projects, raised hopes that North American freight haulage volumes may soon begin to improve.

The worst performing infrastructure sector was Water / Waste (-2%). Concerns that privately owned UK water utility Thames Water was at risk of defaulting on its debt and could be taken under government control weighed on listed peers Pennon (-8%, not held), Severn Trent (-5%, not held) and United Utilities (-2%, not held).

The best performing infrastructure region was Japan (+6%), led higher by its electric utilities. An apparent shift within corporate Japan, with companies being urged to place greater emphasis on profits and share prices, has provided an additional tailwind to the country's infrastructure stocks and broader stock market in recent months. The worst performing infrastructure region was Australia / NZ (-2%), owing to underperformance from the region's toll roads and airports.

Fund performance

The Fund returned +2.4% after fees in June[1], -38 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was Houston-based energy midstream company Targa Resources (+12%). Targa owns and operates a strategically positioned network of natural gas and natural gas liquids (NGLs) storage and transportation assets focused on West Texas' prolific Permian Basin. The stock gained on the expectation that robust earnings, underpinned by Permian volume growth and long-term customer contracts, would allow the company to continue to strengthen its balance sheet and return capital to shareholders via share buybacks and dividend increases. Peer DT Midstream (+11%) and US Liquefied Natural Gas (LNG) exporter Cheniere Energy (+9%) were also buoyed by a favourable demand outlook for their services. During the month, Cheniere signed substantial long-term contracts to supply Chinese and Norwegian energy companies with LNG.

US East Coast freight rail operator CSX Corp (+11%) and West Coast peer Union Pacific (+6%) gained as investors took the view that at current valuation multiples, investors are being compensated for the near term headwinds facing the sector, such as higher labour costs and volume softness. US waste management company Republic Services (+8%) continued to build on recent strength. An improving US housing market – historically a favourable indicator for the waste management sector – and strong pricing power are expected to prove supportive of earnings.

The worst performing stock in the portfolio was Beijing Airport (-7%), owing to concerns for passenger volumes and duty free spending rates against the backdrop of China's slower than expected post-covid recovery. Mexican peer ASUR (-4%), which operates sixteen airports throughout Mexico, Colombia and Puerto Rico, dipped following positive but slower-than-expected passenger growth in May. European operators Flughafen Zurich (+6%) and AENA (+2%) fared better; our team's recent meetings with these companies confirmed a favourable demand environment as the continent's summer holiday season began.

The portfolio's European utilities lagged during a generally positive month. French-listed specialist energy supply and storage operator Rubis (-6%) fell as governance concerns emerged, culminating in the resignation of the company's Chairman and an undertaking to amend remuneration structures. We believe both developments have positive long-term implications for shareholders. Italian electric, gas, water and waste utility Hera (-3%) lagged as investors took profits, following strong gains in recent months.

Fund activity

No new stocks were added to the portfolio during the month, and weights in existing holdings were generally maintained at current levels.

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 remain the portfolio's largest sector overweight. Robust traffic volumes and inflation-linked toll increases are leading to

[1] Fund performance 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.

healthy earnings growth. We are alert to potential headwinds, such as an economic slowdown leading to a dip in truck traffic on longer distance roads; or soft commuter traffic levels on some intra-city roads as the return-to-office trend settles. Overall however we expect toll roads to remain strong performers as higher tolls support earnings growth, and demand proves resilient.

The portfolio is slightly overweight towers / data centres. Consumers and businesses alike continue to move activities onto digital platforms, underpinning growing demand for communication infrastructure assets. While concerns for leasing demand have weighed on the sector recently, and higher interest rates have proved more of a headwind to earnings growth than in previous years, these factors are now better reflected in valuation multiples.

A substantial part of the portfolio consists of utilities / renewables stocks. Decarbonisation, electrification and resiliency spend represent large and growing investment opportunities for these companies. However North American utilities in particular have lagged in the first half of this year, as defensive assets have been overlooked by investors. We believe the extent of this underperformance appears to be extreme, given the utilities' generally sound fundamentals, undemanding valuation multiples and substantial longer term growth drivers.

The portfolio's largest underweight position is to the airports sector. Following strong share price gains driven by the post-covid passenger recovery, mispricing in this space is becoming less evident. We remain most positive on airport operators with exposure to tourist-focused destinations, particularly those serviced by low cost carrier airlines.

Source : Company data, First Sentier Investors, as of 30 June 2023.

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