First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | October 2020

Market review

Global Listed Infrastructure exhibited its defensive characteristics in October, as coronavirus lockdowns in Europe and a contentious US election season weighed on global equities. The FTSE Global Core Infrastructure 50/50 index declined -0.7%, while the MSCI World index^ fell -3.1%.

The best performing infrastructure sectors were Electric Utilities (+4%) and Multi-Utilities (+3%), which announced generally positive September quarter earnings numbers. A continued focus on US utilities' growth potential as they transition towards cleaner energy, along with fresh M&A activity, heightened investor interest. The worst performing infrastructure sector was Railroads (-6%), as quarterly earnings for North American freight rail operators fell short of the market's (high) expectations; and Japanese passenger rail volumes remained persistently low.

The best performing infrastructure regions were the United States (+2%), where utilities outperformed for reasons outlined above; and the United Kingdom (+2%), where electric utility SSE (+4%, held) and multi-utility National Grid (+3%, held) were supported by a positive regulatory outlook. The worst performing infrastructure region was Japan (-8%), reflecting passenger rail weakness and underperformance from the country's electric utilities (not on our Focus List) owing to declining electricity consumption levels and intense competition for retail customers.

Fund performance

The Fund returned 0.3% after fees[1] in October, 97 basis points ahead of the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

Cumulative performance in USD (%)[2]

	3 mths	YTD	1 yr	3 yrs	5 yrs	Since inception
Class I (USD - H Dist)	-2.8	-11.1	-8.8	1.4	27.3	72.5
Benchmark*	-1.6	-12.2	-9.6	5.9	32.8	75.4

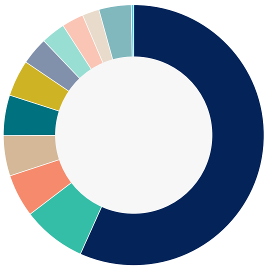
Calendar year performance in USD (%)[2]

	2019	2018	2017	2016	2015
Class I (USD - H Dist)	24.3	-8.3	17.2	11.7	-5.7
Benchmark*	25.1	-4.0	18.4	11.3	-6.0

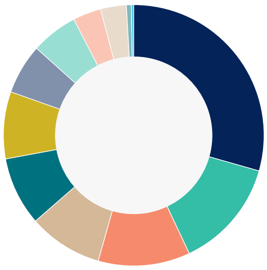
Performance is based on First Sentier Global Listed Infrastructure Fund Class I (USD – H Dist). This is the semi-annually dividend distribution class of the Fund. The performance quoted are based on USD total return (with dividend reinvested). Dividends are not guaranteed and may be paid out of capital.
* The benchmark displayed is UBS Global Infrastructure & Utilities 50-50 Index until 31 March 2015 and FTSE Global Core Infrastructure 50/50 Index from 1 April 2015 onwards. Gross of tax benchmark performance is shown before 1 July 2016 and net of tax benchmark performance is shown after the aforementioned date.
1 Source: First Sentier Investors & Bloomberg, the First Sentier Global Listed Infrastructure's cumulative return over one month, data as of 31 October 2020.
^ MSCI World Net Total Return Index, USD
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.
This Fund is a sub fund of Ireland domiciled First Sentier Investors Global Umbrella Fund Plc.

- The Fund invests primarily in global listed infrastructure and infrastructure-related equity or equity related securities worldwide. Investments in infrastructure projects may involve risks including projects not being completed on time and within budget, changes in environment laws and regulations.
- The Fund's investments may be concentrated in a single and limited/specialist sector or in fast growing economies which may have higher volatility or greater loss of capital than more diversified portfolios.
- Small/ mid-capitalisation securities may have lower liquidity and their prices are more volatile to adverse economic developments.
- The Fund may use FDIs for hedging and efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks.
- For certain share classes, the Fund may at its discretion pay dividend out of capital or pay fees and expenses out of capital to increase distributable income and effectively a distribution out of capital. This amounts to a return or withdrawal of your original investment or from any capital gains attributable to that, and may result in an immediate decrease of NAV per share.
- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

Asset allocation (%)[2]



Country
- USA 56.6
- Australia 7.9
- China 5.3
- UK 5.0
- France 5.0
- Japan 4.5
- Canada 3.4
- Italy 3.0
- Mexico 2.7
- Switzerland 2.1
- Other 4.0
- Liquidity 0.3



Sector
- Electric Utilities 29.4
- Multi-Utilities 13.6
- Highways/Railtracks 11.4
- Specialised REITs 9.2
- Gas Utilities 8.5
- Railroads 8.3
- Oil/Gas Storage & Trans. 6.2
- Airport Services 5.8
- Construction & Engineering 3.5
- Water Utilities 3.2
- Other 0.6
- Liquidity 0.3

Top 10 holdings (%)[2]

Stock Name	Sector	%
Transurban	(Highways/Railtracks)	6.6
Nextera Energy Inc	(Electric Utilities)	6.4
American Tower Corporation	(Specialised REITs)	5.6
Dominion Energy Inc COM	(Multi-Utilities)	5.1
Eversource Energy	(Electric Utilities)	3.5
CenterPoint Energy, Inc.	(Multi-Utilities)	3.2
Alliant Energy Corporation	(Electric Utilities)	2.9
SBA Communications Corp Class A	(Specialised REITs)	2.9
Xcel Energy Inc.	(Electric Utilities)	2.6
Emera Inc	(Electric Utilities)	2.4

The best performing stock in the portfolio was New Mexico and west Texas electric utility PNM Resources (+21%), which agreed to an US$8bn takeover offer from Avangrid (-2%, not held). The combined entity will be a substantial utility business and one of the largest renewable energy companies in the US, with operations in 24 states. This acquisition reflects the significant energy transition investment opportunities in PNM's service territories, which are rich in solar and wind resources.

Other positive performers in the US utilities space included Portland General Electric (+11%), which announced better than expected September quarter earnings helped by lower Operations & Maintenance costs; and noted it was unaware of any wildfires that had been caused by its equipment. In-line September quarter earnings numbers from American Electric Power (+10%), which delivers electricity to more than five million customers in 11 US states, were accompanied by positive commentary about the scope of renewables-related growth potential. CenterPoint Energy (+9%) gained as investors anticipated the likely sale of its Enable midstream business and the resulting shift to a more regulated business model. Midwest utility Evergy (+9%) also climbed as investors identified value.

Chinese gas utility ENN Energy (+16%) announced strong September quarter earnings numbers against the backdrop of China's ongoing domestic recovery. Gas sales volumes increased by +18% compared to the same period a year earlier and new residential connections were +45% higher, enabling the company to raise its full year earnings growth target from +15% to +18%. China Gas Holdings (+8%), which reports earnings later in November, was also buoyed by these positive results. China's plan to turn carbon neutral by 2060 could further boost domestic gas utilities' already-healthy growth trajectory, as natural gas is used as a transition fuel away from coal.

The worst performing stock in the portfolio was energy supply and storage business Rubis (-18%). Concerns for petroleum demand levels saw the stock's valuation multiples trade down to multi-year lows, despite healthy company fundamentals and a stable earnings outlook. The company has a strong track record of acquiring energy infrastructure assets deemed non-core by larger operators, and then realising value through strong operating performance. The current market environment, and integrated oil companies' shift towards renewables, are likely to present Rubis with further contrarian opportunities to acquire profitable assets at cheap prices. The company recently announced plans to use its robust balance sheet to buy back shares.

Japanese passenger rail stocks East Japan Railway (-16%) and West Japan Railway (-14%) underperformed as Japan's recurring coronavirus outbreak continued to dampen station retail sales and travel demand – particularly on the companies' longer haul and more lucrative shinkansen routes. Passenger numbers are slowly recovering from the depressed levels seen during April and May's nationwide state of emergency, but remain well below pre-pandemic levels.

European transport stocks also fell as the reintroduction of coronavirus lockdown measures across the continent overshadowed resilient recent traffic volumes. French toll road operator Eiffage (-11%) reported that traffic volumes on APRR (the company's main toll road asset) fell by just -2.7% during the September quarter compared to the same period a year earlier. Traffic on the Vinci (-5%) road network declined by -4.3% during the same period. Spanish airport operator AENA (-3%) announced better than expected September quarter earnings owing to disciplined cost control, although full year traffic forecasts for 2020 were lowered in the light of fresh travel restrictions. A limited decline for Switzerland's Flughafen Zurich (-2%) reflected investor recognition of its supportive regulatory regime, conservative management team and valuable property portfolio.

Fund activity

The Fund initiated a position in Exelon, a substantial US utility that delivers electricity and natural gas to approximately 10 million customers in the Northeast and Midwest US. The company is also one of the largest US power generators, with extensive nuclear, gas, wind, solar and hydroelectric generating capacity.

Performance is based on First Sentier Global Listed Infrastructure Fund Class I (USD – H Dist).
2 Source: Lipper & First Sentier Investors, Nav-Nav (USD total return) as at 31 October 2020. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. Fund inception date: 27 June 2008.

Exelon recently announced it was considering the sale of its generation assets. This would reduce its exposure to competitive power markets and give the business a more predictable earnings profile, which could cause it to trade up to higher valuation multiples.

Essential Utilities, a regulated US water, wastewater and natural gas business was also added to the portfolio. The need to upgrade aged water pipeline networks, along with the ability to carry out "tuck-in" acquisitions of smaller peers, represent long term sources of low-risk earnings growth. A sceptical market reaction to the acquisition of natural gas assets in 2018 (which represents around a third of the company's earnings) has led to a sustained period of underperformance compared to peers, presenting an opportunity to buy.

Exposure to the North American freight rail sector was adjusted during October. West Coast operator Union Pacific was sold following a sustained run of outperformance; and after the company unexpectedly announced that Chief Operating Officer Jim Vena, who had been instrumental in driving operational efficiency improvements at the firm since his appointment in early 2019, would move to a senior adviser role at the end of this year. The proceeds were used to initiate a position in East Coast peer CSX, on a relative valuation basis. The company has underperformed other North American freight rail operators over 1 and 3 years, on the view that its operational improvement story has already played out. It now trades at a lower Price/Earnings ratio, with a higher free cash flow yield, than any of its peers, despite similar operational metrics and a well-regarded, experienced management team. US energy pipeline company Williams was also sold after outperformance vs peers during the 2020 calendar year 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, 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 theme of energy decarbonisation – and its implications for large segments of the listed infrastructure opportunity set – has gathered positive momentum in recent months. Net Zero targets for the UK and the European Union have been followed by Net Zero announcements from China, Japan and South Korea. Net Zero assumptions are reflected in our team's thinking, stock analysis and portfolio exposures, incorporating both stranded asset risk and attractive growth opportunities.

Energy infrastructure faces an environment where oil demand may have already peaked. Volumes for North American oil pipelines may now be in structural decline, albeit with residual demand likely from the petro-chemical and aviation industries. Over the medium term, we expect that thermal coal will be eliminated from power generation; followed by the steel industry finding an eventual replacement for metallurgical coal. This shift has implications for utilities with generation capability, as well as for freight rail companies with coal haulage segments.

More positively, natural gas is likely to remain a key transition fuel with continued growth over the next decade, before a structural decline in demand begins. Gas-fired power plants can supply energy quickly at times of high demand. They provide a flexible way to mitigate renewables' intermittency while transmission grids are being upgraded and expanded to link to new solar and wind farms. Even then, some countries (Japan) or regions (US northeast) will rely in part on natural gas, owing to a lack of renewable resources.

Further, the replacement of uneconomic conventional power stations by cheaper renewables is likely to present substantial capex opportunities for many utilities over coming years. In the US, regulated utilities are typically allowed to recover costs and – importantly – earn a return on capital expenditure. Large-scale capital investment in wind and solar assets is being led by large, publicly traded electric utilities including NextEra Energy and Xcel Energy. We anticipate this will represent a source of steady earnings growth over long time frames, particularly for larger utilities which can benefit from substantial economies of scale.

As we assess these assumptions, we continue to execute the investment process that has served us well since 2007, focusing on relative quality and value, and seeking to invest in good quality companies at good prices.

Source : Company data, First Sentier Investors, as of end of October 2020