First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | February 2023

Market review

Global Listed Infrastructure gave up ground in February, as renewed concerns for high inflation weighed again on financial markets. The FTSE Global Core Infrastructure 50/50 index fell -4.8% while the MSCI World index^ ended the month -2.4% lower.

The best performing infrastructure sectors were Airports (+2%) and Toll Roads (+1%), reflecting positive trends in passenger / traffic volumes and healthy December quarter earnings numbers. The worst performing infrastructure sector was Towers / DCs (-10%) as rising rate concerns weighed on these bond yield-sensitive stocks. Strong US employment data suggested that further interest rate hikes would be needed to contain persistently high inflation.

The best performing infrastructure region was Australia / NZ (+2%), led higher by transport infrastructure. The worst performing infrastructure region was the US (-6%), where Towers and Utilities lagged.

Fund performance

The Fund returned -2.3% after fees in February, +249bps ahead of the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Spanish airport operator AENA (+6%), owing to robust December quarter earnings and upgraded guidance for passenger volumes for the year ahead. Passenger numbers at AENA's airports exceeded the equivalent 2019 period for the first time in January 2023, providing a further boost to sentiment (though summer month volumes are more significant for this company). ASUR (+3%) outperformed as December quarter earnings reflected healthy profitability. Passenger volumes at its Mexican airports were 16% higher in 2022 than in 2019. Swiss peer Flughafen Zurich (+3%) also gained on a positive outlook for the sector, with improvements to passenger volumes expected as airline capacity returns over coming months.

The portfolio's toll road holdings also did well – if they were from developed markets. French-listed Vinci (+4%) announced strong 2022 earnings numbers, supported by robust traffic volumes for both its road and airport business segments. Australia's Transurban (+3%) outperformed as traffic recovery and higher tolls (aided by the inflation-linked terms of many of its concession frameworks) underpinned strong earnings in the second half of 2022. However CCR (-7%) underperformed despite announcing reasonable December quarter earnings numbers, as Brazil's stock market declined. Chinese peer Jiangsu Expressway (-3%) also lagged despite a lack of stock-specific news. Over the medium term, China's reopening is expected to support earnings growth and sentiment towards this stock.

The worst performing stock in the portfolio was regulated US utility Dominion Energy (-12%). Earnings for the 2022 calendar year were in line with expectations. However the company lagged on concerns for an uncertain earnings outlook as its strategic review continues. Rising interest rates represented an additional headwind to this defensive, large cap stock. Rising rate concerns also weighed on PPL Corp (-9%) despite the company raising its dividend by ~7% (as expected) and having recently reaffirmed an annual EPS growth target of between 6% and 8% through to 2026. Duke Energy (-7%) announced broadly in-line December quarter earnings and confirmed 2023 guidance, but investors were disappointed by a delay to the anticipated sale of its Commercial Renewables division (wind and solar assets) from mid-2023 to the second half of the year.

- The Fund invests primarily in global listed infrastructure and infrastructure-related equity securities 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. The Fund may also expose to RMB currency and conversion risk.
- 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.

^ MSCI World Net Total Return Index (USD) is provided for information purposes only. Index returns are net of tax. Data to 28 February 2023. Source: First Sentier Investors / Lipper IM. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

The other main area of weakness in the portfolio came from large cap US tower operators Crown Castle (-12%) and American Tower (-11%), which both underperformed on concerns for rising interest rates. During the month, American Tower announced weaker than expected 2023 earnings guidance, with stronger US leasing not enough to offset higher interest rates. The company also announced that it may consider divesting a stake in its India business. Italian peer Inwit (+4%) bucked the trend, supported by ongoing hopes of consolidation within the European towers space (where it is seen as a potential target rather than acquirer); and the appeal of its inflation-linked contracts.

Fund activity

Having added Midwest US utility ONE Gas to the portfolio when its shares trade down to depressed levels in December 2022, the holding was divested in February 2023 after its share price recovered sharply. As long term investors we typically seek to hold stocks for between three and five years. However our investment process gives us the flexibility to move more quickly when necessary, as mispricing opportunities open or close.

A position in Canadian energy midstream company Pembina Pipeline was sold after a series of robust earnings results drove pleasing share price gains, moving the stock to a lower ranking within our investment process.

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, on the view that robust traffic volumes and inflation-linked toll increases will lead to 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 lacklustre commuter traffic levels on some intra-city roads as the return-to-office trend settles. Overall however we expect toll roads to be strong performers as toll increases support earnings growth, and demand proves more resilient than expected by the market.

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. The ongoing rollout of 5G mobile technology is expected to provide an additional tailwind to tower leasing demand. While the revenue outlook remains robust, we are conscious that rising interest rates may be more of a headwind to EPS growth than in previous years.

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. These investments drive utilities' rate base growth, leading in turn to earnings growth. However, in the near term this growth is likely to be tempered by rising interest costs. Despite these headwinds, we believe utilities have the potential to deliver reasonable earnings growth, underpinned by plentiful capital investment opportunities and aided by limited sensitivity to a weaker economic backdrop.

An underweight position has been maintained in the energy midstream sector, with exposure consisting of high conviction positions in companies with exposure to low cost basins; or that are positioned to benefit from growth in US LNG exports. We remain conscious of the structural headwinds that Net Zero initiatives may pose to this sector in the longer term.

Source : Company data, First Sentier Investors, as of 28 February 2023.

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.