First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | March 2023

Market review

Global Listed Infrastructure increased in March as financial markets shrugged off mid-month turbulence in the banking sector. The FTSE Global Core Infrastructure 50/50 index returned +2.9% while the MSCI World index^ ended the month +3.1% higher.

The best performing infrastructure sectors included Utilities / Renewables (+4%), Water / Waste (+3%) and Towers / DCs (+3%). These interest-rate sensitive sectors were supported by the view that recent banking sector weakness, triggered in part by higher bond yields, may cause the pace of central bank interest rate rises to slow. During the month the US 10 year treasury yield declined from 3.9% to 3.5%.

The worst performing infrastructure sector was Railroads (flat). Gains for Japanese passenger rail stocks, in anticipation of normalising traffic volumes, were offset by declines for US freight rail on lacklustre haulage volumes in the March quarter.

The best performing infrastructure region was Latin America (+5%). Brazil's listed infrastructure companies rose sharply on hopes that a dispute about government spending levels had been resolved. The worst performing infrastructure region was Australia / NZ (-1%), where investors took profits following recent strong gains.

Fund performance

The Fund returned +1.2% after fees in March, -176bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Brazil toll road operator CCR (+16%), which operates approximately 3,000 kilometres of toll roads including the main highway connecting Sao Paulo and Rio de Janeiro – the country's two biggest and most important cities. Reports that a compromise solution had been reached between Brazil's left wing government's commitments to boost public spending, and existing rules on the country's spending growth, eased uncertainty and buoyed Brazil's stock market. Mexican airport operator ASUR (+5%) climbed as investors remained optimistic about the outlook for passenger volume growth at its portfolio of tourist-focused airports.

Italian mobile tower operator Inwit (+16%) climbed on rumours of an approaching takeover bid for the company by French investment firm and existing shareholder Ardian. Such a move would represent the continuation of strong M&A activity in the European mobile towers space. Other recent transactions have included American Tower buying Telxius Towers from Telefonica in 2021; a consortium of investment firms buying a stake in GD Towers from Deutsche Telekom in 2021; and a separate consortium of investment firms buying a stake in Vantage Towers from Vodafone in 2022. Large-cap US peers Crown Castle (+4%) and American Tower (+3%) also fared well as investors identified value following a period of underperformance; and as lower bond yields provided a tailwind to their valuation multiples.

US regulated utilities including NextEra Energy (+9%), Pinnacle West (+8%), CenterPoint Energy (+6%) and Xcel Energy (+5%) delivered healthy gains. The sector was buoyed by several factors including lower energy prices being reflected in customer bills, reducing the risk of political or regulatory interference; lower bond yields; and the appeal of their regulated earnings streams against an uncertain market backdrop.

The worst performing stock in the portfolio was French-listed energy storage operator Rubis (-6%). Robust full year earnings growth, driven by healthy volumes and profit margins, was overshadowed by a two year deferral in profit targets for its Renewables

^ MSCI World Net Total Return Index (USD) is provided for information purposes only. Index returns are net of tax. Data to 31 March 2023. Source: First Sentier Investors / Lipper IM. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

- 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.

division, owing to industry-wide delays to land and construction permits. Renewable energy development is expected to become an increasingly important part of Rubis' overall business in time. A widespread series of protests in France against proposed pension reforms weighed on sentiment towards stocks with assets in that country including toll road operators Atlas Arteria (-5%) and Vinci (-2%); and Channel Tunnel operator Getlink (-5%).

US west coast freight rail operator Union Pacific (-3%) ended the month lower. Investors were disappointed by the absence of a swift announcement that a precision scheduled railroading specialist (a strategy that reduces costs by operating fewer, longer trains and running them on tighter schedules) would be appointed as its next CEO. East coast peer CSX (-2%) also lagged as resilient pricing was overshadowed by persistently high cost inflation, and expectations of volume softness during the March quarter.

Fund activity

The Fund initiated a position in Beijing Airport, the owner and operator of Beijing's most significant airport via a concession that runs until 2056. The company is likely to be a key beneficiary of China's post-COVID reopening, as airline traffic volumes increase and domestic Chinese tourists returning to leisure travel drive an uplift in duty-free spending. The recovery of international travel at the airport is then likely to represent an additional tailwind.

The Fund also added a holding in Southern Company, a large-cap, regulated US utility. Southern is run by a well-regarded management team and operates in a constructive regulatory jurisdiction with robust economic growth. The stock has underperformed in recent years, as project delays and cost overruns at the Vogtle nuclear power plant in Georgia have eroded the premium vs peers that it previously traded at. We believe the stock now has the potential to trade back up to a premium, as the plant nears completion. A position in regulated US utility Exelon was divested in favour of utility names trading at higher rankings 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.

The outlook for the asset class is positive. Balance sheets and dividend payout levels are generally healthy, and appear well placed to weather a deteriorating economic backdrop. We are conscious of potential headwinds in the form of higher interest costs, and elevated regulatory and political risk. Overall however, earnings from this space are expected to be more resilient than those of global equities, owing to the essential service nature of these businesses, and their typically regulated / contracted earnings streams.

Public policy support for infrastructure investment remains strong globally, particularly for the replacement of aged infrastructure assets and the buildout of renewables. Utilities are in the midst of a multi-decade structural growth story. 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.

Transport infrastructure is benefitting from a recovery in volumes as travellers return to the air; and as the return-to-office trend ramps up. For many toll roads, the high inflation of 2022 will translate into toll uplifts over coming quarters, supporting healthy earnings growth. Traffic data from the Airports sector has highlighted a keen appetite to travel, with the strongest recovery seen at tourism-focused airports.

Source : Company data, First Sentier Investors, as of 31 March 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.