First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | November 2023

Market review

Global Listed Infrastructure rose strongly in November as lower than expected inflation levels led to renewed hopes that the current interest rate cycle may have peaked. The FTSE Global Core Infrastructure 50/50 index returned +8.0% while the MSCI World index^ ended the month +9.4% higher.

The best performing infrastructure sector was Towers / Data Centres (+20%), aided by falling bond yields and activist intervention. Toll Roads (+9%) and Airports (+9%) also performed well on solid traffic numbers and hopes of a soft landing for the global economy. The worst performing infrastructure sector was Utilities / Renewables (+5%) as the "risk-on" mood saw investors focus on higher beta areas of the market.

The best performing infrastructure region was Latin America (+13%). Mexico's airport stocks recovered ground as investors digested the potential implications of regulatory changes unexpectedly announced in October. The worst performing infrastructure region was Japan (+2%), following strong gains in recent months.

Fund performance

The Fund returned +7.9% after fees in November, -17bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing holdings in the portfolio were large cap US tower companies Crown Castle (+26%) and American Tower (+17%). Both stocks were buoyed by hopes that interest rates may have peaked, as the US 10-year bond yield fell from 4.9% to 4.3% during the month. Crown Castle was further supported by news that a prominent activist investor had built a US$2 billion stake in the company. The activist is calling for changes to Crown Castle's management team and strategy, including the potential sale of its fibre optic business, in order to improve shareholder returns.

Mexican toll road operator PINFRA (+16%) gained as the country's toll roads were deemed unlikely to face the type of regulatory adjustments that have recently been applied to Mexico's airport sector. An undemanding valuation and defensive (net cash) balance sheet also proved supportive. Brazil's largest toll road operator CCR (+13%) increased after announcing robust September quarter earnings results, reflecting generally solid traffic volumes and disciplined cost control. Transurban (+10%), which operates toll road networks across Australia's largest cities, and whose stable cash flows and relatively high borrowing levels make it sensitive to interest rates, was supported by falling bond yields.

Spanish airport operator AENA (+16%) announced solid earnings results for the September quarter, which encompasses much of the peak European summer holiday season. The company also provided a positive outlook for passenger volumes in late 2023 and early 2024. Swiss peer Flughafen Zurich (+10%) reached a traffic milestone in October, as volumes recovered to 2019 levels for the first time. Mexico's ASUR (+8%) rose as investors came to terms with changes to the regulatory framework for the country's airport operators.

US freight rail stocks Norfolk Southern (+15%), CSX Corp (+9%) and Union Pacific (+9%) climbed as indications of volume recovery and improving productivity metrics augured well for the months ahead, following a testing 2023. Channel Tunnel operator Getlink (+10%) was supported by rumours that it may be the subject of a takeover bid by a consortium of institutional investors. The company reported healthy demand for passenger vehicles on its "LeShuttle" service in October, as the Rugby World Cup drew visitors to France.

^ MSCI World Net Total Return Index (USD) is provided for information purposes only. Index returns are net of tax. Data to 30 November 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.

The worst performing stock in the portfolio was Chinese gas utility ENN Energy (-8%), as disappointing Chinese economic data (a weak property market, declining exports) continued to weigh on investor sentiment towards the stock. A slowing property market could mean lower demand for new residential gas connections; while muted factory activity levels imply lower commercial and industrial gas sales. At current valuation multiples, we believe these headwinds have largely been priced in.

The portfolio's other Chinese holdings, Beijing Airport (-2%), Jiangsu Expressway (-1%) and Guangdong Investment (+1%), also lagged November's rising markets. In the absence of material stock-specific news, this underperformance appears to have been a reflection of negative sentiment driven by macroeconomic factors.

Fund activity

The Fund initiated a position in GAP, Mexico's largest airport operator, which runs 12 airports in Mexico's Pacific region, as well as two Jamaican airports. Mexico's growing middle class, and the conversion of bus passengers to air travel, are expected to underpin healthy volume growth. Some uncertainty remains around the terms of recent changes to Mexico's airport regulations. However, valuation multiples appear to have priced in an unfavourable outcome, providing an attractive entry point into a high quality company with strong traffic growth drivers over the medium-term.

US regulated electric, gas and water utility Eversource Energy was also added to the Fund. The company operates transmission and distribution assets across New England, and has a healthy EPS forecast growth rate of 5-7% through to 2027. Uncertainty relating to the sale of its 50% stake in an offshore wind project off the south coast of Massachusetts, and concerns for higher interest rates, have weighed on its share price in recent months. We believe the stock is now trading at a substantial discount to intrinsic value.

A position in US regulated electric utility CenterPoint Energy was divested after the expansion of its valuation multiples during the Fund's holding period reduced mispricing. A holding in peer PPL Corp was sold in favour of higher conviction names within the US utilities sector. French-listed energy supply and storage specialist Rubis was also divested, owing to concerns about the structural headwinds facing its business and pending management changes.

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.

Earnings growth for the asset class is likely to be underpinned by a number of structural growth themes over coming years. We remain optimistic about the substantial investment opportunities associated with the decarbonisation of the world's energy needs. Utilities, which represent about a half of the global listed infrastructure opportunity set, are positioned to derive steady, regulated earnings growth by building solar and wind farms, and by upgrading and expanding the networks needed to connect these new power sources to the end user.

Digitalisation is another key theme for the asset class. Structural growth in demand for mobile data (underpinned by an ever-growing reliance on digital connectivity) continues to support steady earnings growth for Towers and Data Centres. The adoption of 5G technology over coming years will require networks to handle increased data speed, as well as a much higher number of connected devices. This bodes well for continued capital expenditure into mobile networks, to the benefit of Towers.

There remains scope for continued recovery in the transport infrastructure space. We believe toll roads represent exceptional value at current levels, with traffic volumes proving resilient and inflation-linked concession agreements helping to support earnings growth. We also have a positive view of North American freight railroads. While the sector has faced challenges in 2023, these companies are unique and valuable franchises. Their wholly-owned track networks are high quality infrastructure assets which can never be replicated. They typically operate under duopoly market conditions, with significant numbers of captive customers such as grain, chemical and auto producers giving them strong pricing power over long haul routes. Improving operating efficiency provides further scope to grow earnings.

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

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