First Sentier Global Listed Infrastructure Fund Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | February 2024

Market review

Global Listed Infrastructure rose in February, aided by a generally favourable set of earnings results. The FTSE Global Core Infrastructure 50/50 index returned +0.7% while the MSCI World index^ ended the month +4.2% higher.

The best performing infrastructure sector was Other (+7%), as EM port stocks continued their strong run. Railroads (+6%) outperformed on activist investor interest and hopes of volume and margin improvements for North American freight rail operators. The worst performing infrastructure sector was Towers / Data Centres (-3%), as market consensus around the likely timing of future interest rate cuts was extended.

The best performing infrastructure region was Asia ex-Japan (+7%), as Chinese stocks were buoyed by indications of government support measures for the country's stock market and broader economy. The worst performing infrastructure region was the UK (-4%), reflecting underperformance from its electric and water utilities.

Fund performance

The Fund returned +0.4% after fees in February, -23bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Houston-based energy midstream company Targa Resources (+16%). The company announced healthy 2023 earnings numbers, reflecting robust oil and natural gas production volumes across its Texas-focused energy transportation networks. Investors also welcomed company plans to reduce capital expenditure in 2025. This may provide scope to return capital to shareholders – for example by raising its dividend or buying back more shares.

Liquefied Natural Gas (LNG)-focused peer DT Midstream (+7%) also gained after announcing resilient earnings numbers, despite lower natural gas prices. The company raised earnings guidance for 2024 by 1%, and set a new dividend growth target of between 5% and 7% per year. Its flagship LEAP pipeline system is well-positioned to transport natural gas from the Texas / Louisiana Haynesville gas basin to export facilities on the US Gulf Coast. In contrast, Cheniere Energy (-5%), the largest US LNG exporter, underperformed on concerns that it may be affected by a temporary pause in new US LNG export project approvals. The company also announced conservative earnings guidance for 2024, following a period of unusually strong earnings growth driven by rising demand for LNG in Europe and Asia. Oil major Shell noted in its 2024 LNG outlook report that it expects global LNG demand to increase by 50% by 2040.

Appealing valuation multiples and improving sentiment towards the broader Chinese market underpinned strong gains for Beijing Airport (+12%), ENN Energy (+11%) and Jiangsu Expressway (+8%). During the month investors, became increasingly hopeful that government measures to support the Chinese equity market would be forthcoming. Stock-specific drivers also played a role. In a recent meeting with Beijing Airport, the company expressed confidence that international passenger numbers would improve through the year. Chinese oil and gas company PetroChina announced plans to adjust its natural gas pricing framework, offering scope for gas utilities such as ENN to expand their margins.

Other strong performers included US gas utility / energy midstream company UGI Corp (+11%), which announced pleasing December quarter earnings, driven primarily by favourable weather conditions and strong margins for its European propane distribution business. US freight rail operator Norfolk Southern (+8%) also gained, following news that an activist investor had built a stake in the company. Ancora Advisers is pressing for

- 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 29 February 2024. Source: First Sentier Investors / Lipper IM. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

changes including the appointment of new management, new Board members and improvements in operational efficiency.

The worst performing stock in the portfolio was Xcel Energy (-12%), which fell on concerns that it may be held liable for the Smokehouse Creek wildfire in northern Texas. The affected region includes the service territory of Xcel subsidiary Southwestern Public Service Company, whose facilities appear to have been involved in ignition of the fire. The extent of damage and risk of negligence will be key factors for the stock in the period ahead. US utilities are investing over $150 billion each year to deliver more reliable and cleaner energy. As Warren Buffett noted in his annual letter to Berkshire Hathaway investors, if governments and regulators want this capital investment to continue, they will need to ensure utilities earn satisfactory returns through these events.

UK networks and renewables-focused utility SSE (-4%) gave up ground following a 9-month trading statement in which the company adopted a cautious tone around full year Earnings Per Share expectations; and noted that the pace of turbine installation at its Dogger Bank A wind farm in the North Sea had been affected by vessel availability constraints and supply chain delays.

Italian mobile tower operator INWIT (-9%) fell as developments within the Italian telecom market led investors to conclude that any potential bid for the company (which is viewed as a possible consolidation target) may be further away than previously assumed. US peers Crown Castle (+2%) and American Tower (+2%) held up better on undemanding valuation multiples and American Tower's resilient December quarter earnings.

Fund activity

The Fund added a position in regulated electric utility American Electric Power, which serves nearly 5.6 million customers across 11 US states. Concerns around the company's balance sheet have seen the stock trade down to depressed valuation multiples. However, recent developments – new board members and indications that the company may seek to ease balance sheet pressures by selling minority stakes in some of its transmission assets – have the potential to ease these worries and drive an increase in the stock's valuation multiples.

A holding in US regulated utility FirstEnergy was divested in favour of positions in higher conviction names in the US regulated utility space. Canadian peer Emera was also sold on concerns for balance sheet weakness, and an absence of material mispricing in our valuation model for the stock.

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. These companies have benefited from a shift towards cars and away from public transport since the COVID-19 pandemic. To date, inflation-linked toll increases have had little impact on demand. Strong operating leverage (i.e. largely fixed costs as sales increase) has proved supportive of earnings growth. Improvements made to toll road networks in recent years provide scope for further growth in traffic volumes.

A substantial portion of the portfolio consists of utilities / renewables. Following a challenging 2023, balance sheets are now in better shape and customer bill pressures are declining. Capital expenditure growth should accelerate, reflecting the need for increased resiliency spend and higher electricity usage growth from data centres, industrial on-shoring and electric vehicles.

The portfolio remains underweight energy midstream. Supportive oil and natural gas prices, robust LNG export levels and a disciplined approach to capital expenditure are enabling the sector to generate strong free cash flow. However, following a sustained period of strong performance, mispricing in this sector has become less evident. We have maintained high conviction positions in companies operating in low cost basins; or that are positioned to benefit from growth in US LNG exports.

Source : Company data, First Sentier Investors, as of 29 February 2024.

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.