First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Market review

Global Listed Infrastructure regained ground in October, aided by positive earnings numbers. The FTSE Global Core Infrastructure 50/50 index climbed +3.4% while the MSCI World index^ ended the month +7.2% higher.

The best performing infrastructure sector was Airports (+10%), which continued to benefit from strong pent-up demand and the lifting of travel restrictions in most markets. The worst performing infrastructure sector was Towers / DCs (-3%) as valuation multiples came under pressure from higher bond yields.

The best performing infrastructure region was Latin America (+16%), where gains were led by Mexican airport operators and Brazil's utilities. The worst performing infrastructure region was Asia ex-Japan (-1%), where China reiterated its commitment to a zero-Covid approach.

Fund performance

The Fund returned +0.8% after fees in October, 259 bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Mexican airport operator ASUR (+17%). Robust September quarter earnings numbers were underpinned by healthy passenger volume growth, disciplined cost control and a constructive regulatory framework. Passenger volumes at Cancun Airport – ASUR's largest asset and an attractive tourist destination – have now reached 137% of pre-pandemic levels. The company's undemanding valuation multiples and conservatively managed balance sheet also drew investor interest. Positive airport passenger volume trends were also reported by Spanish and Swiss peers AENA (+11%) and Zurich Airport (+6%); and by infrastructure concessions and construction business Vinci (+10%), whose airports division manages over 50 airports in 11 countries.

The portfolio's energy midstream holdings climbed in October, led by DT Midstream (+15%), which derived better-than-expected September earnings results from its portfolio of natural gas-focused energy transportation and storage assets in the US Northeast and Gulf Coast regions. The company reported robust volume growth, driven by a combination of organic growth and expansions to its existing pipeline systems, and raised its earnings guidance for the 2022 calendar year. Houston-based Targa Resources (+14%), which operates strategically located natural gas and natural gas liquids (NGLs) storage and transportation assets, gained as investors anticipated healthy September quarter earnings results. During the month, the stock was added to the S&P500 index, reflecting improvements to its financial position and asset base over recent years.

US freight rail operators CSX Corp (+9%) and Norfolk Southern (+9%) both announced positive September quarter earnings. CSX, whose rail network covers much of the US east of the Mississippi River, reported revenue of US$3.9 billion for the quarter, a 17% increase over the same period a year ago, aided by strong core pricing along with a modest rise in haulage volumes. The company's service metrics and capacity are expected to benefit from current additions to the company's workforce. Norfolk Southern also grew revenue by a better-than-expected 17% during the September quarter, reflecting the company's pricing power and improving operational performance. The company's trains spent less time waiting in terminals, and travelled at a higher average speed.

- 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. 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 31 October 2022. Source: First Sentier Investors / Lipper IM. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

The worst performing stocks in the portfolio were small positions in Chinese gas utilities China Gas (-26%) and ENN Energy (-26%); and water utility Guangdong Investment (-19%), which provides water supplies to Hong Kong. These stocks were affected by negative sentiment towards the broader Chinese market after President Xi Jinping extended his leadership period to a third five-year term, breaking with the traditional two term limit and raising investor concerns for Chinese political risk. The intention to continue with the country's current zero-Covid policy, which has been characterized by frequent and large-scale lockdowns, further weighed on investor sentiment.

Canadian-listed utility Emera (-8%), which operates regulated electric and gas utilities in Canada, the United States and the Caribbean, underperformed following the announcement of legislation to cap electricity price rises in the eastern Canadian province of Nova Scotia. The move is likely to affect earnings growth for the company's Nova Scotia Power operations, which represents around a quarter of the company's earnings.

The portfolio's mobile tower holdings SBA Communications (-5%) and American Tower (-3%) also underperformed as persistent concerns for rising interest rates outweighed healthy earnings results. American Tower reported 9% revenue growth compared to the same period a year earlier for the September quarter; and noted that it continues to benefit from telecom companies seeking to rapidly build out their 5G networks. September quarter earnings for SBA Communications, announced at the very end of the month, included a better-than-expected 15% revenue growth and an increase to 2022 earnings guidance.

Fund activity

A position was initiated in US mobile tower company Crown Castle after concerns for rising interest rates weighed on its share price, presenting an appealing entry point. Located solely in the United States, this company's assets include a portfolio of more than 40,000 mobile towers, complemented by around 115,000 on-air or under-contract small cell nodes (low powered wireless network base stations) and approximately 85,000 miles of fibre network. The company is well-positioned to benefit from positive mobile tower leasing trends; while a dividend yield of around 5% should provide valuation support. The quality of small cells and fibre assets are not as high as macro towers, but we believe this difference is now captured in the price.

Japanese passenger rail operator West Japan Railway was divested after the easing of travel restrictions for tourists and business travellers entering Japan, along with falling COVID case numbers, led to a period of share price outperformance. This moved 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.

The asset class remains positioned to benefit from several long term, structural growth drivers. 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. Technology advances and lower costs for utility-scale battery storage will enable renewables to represent a greater share of the overall electricity generation mix. In the medium term, the roll-out of electric vehicles is then expected to provide an additional boost to utilities – first via investment opportunities associated with linking EV charging stations to the grid; and then via higher overall demand for electricity.

Digitalisation is another key long term theme for the asset class. While rising interest rates have weighed on Towers and Data Centres in recent months, structural growth in demand for mobile data (underpinned by the growing reliance on digital connectivity) continues to support steady earnings growth for these stocks. The changes required during the pandemic have accelerated a shift towards the use of wireless data in many people's everyday lives. The adoption of 5G technology over the medium term will require networks to handle increased data speed, and a much higher number of connected devices.

We also see continued evidence of recovery within the transport infrastructure space. Toll roads represent exceptional value at current levels, with traffic volumes (particularly car traffic) proving resilient. These assets are likely to fare relatively well in a higher inflation environment. Many toll roads have concession agreements that specify how prices can be increased, with an option to follow the inflation rate or an agreed percentage – whichever is higher. Recent earnings results from the Airports sector have highlighted a keen appetite to travel, with the strongest traffic recovery seen at tourism-focused airports such as Spain's AENA or Mexico's ASUR. Airlines have also noted that flexible working has given people greater freedom to take short trips.

Source : Company data, First Sentier Investors, as of 31 October 2022.

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.