First Sentier
Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | August 2023

- 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.

Market review

Global Listed Infrastructure fell in August against a backdrop of rising bond yields and mounting concerns for slowing growth in China. The FTSE Global Core Infrastructure 50/50 index returned -5.5% while the MSCI World index^ ended the month -2.4% lower.

The best performing infrastructure sector was Energy Midstream (flat), aided by generally well-received June quarter earnings numbers and higher commodity prices. The worst performing infrastructure sector was Toll Roads (-6%) as investors took profits following healthy ytd gains.

The best performing infrastructure region was Japan (+6%), led higher by its electric utilities (not in our focus list). These stocks gained on hopes that the government may now be closer to allowing the re-start of additional nuclear power plants. The country's railroads also rose as travel restrictions continued to ease. The worst performing infrastructure region was Australia / NZ (-7%), owing to underperformance from its toll road, airport and railroad stocks.

Fund performance

The Fund returned -5.6% after fees in August, -13bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was West Japan Railway (+8%). The company's passenger rail network includes the cities of Osaka and Kyoto, which are often considered the cultural heart of Japan. Its share price rose on the view that it is well positioned to capture pent-up demand from domestic travellers, as well as benefitting from a return of overseas tourists. During the month, China approved the resumption of Japan-bound group tours for its citizens, in a move that is expected to support Japan's inbound tourism numbers. Channel Tunnel operator Getlink (-3%) reported relatively soft traffic numbers for July, with both car and truck volumes remaining below 2019 levels. Recent social unrest in France is likely to have reduced car (tourist) demand during this period.

US energy midstream company Targa Resources (+5%) continued its run of strong performance as investors shrugged off lower-than-expected June quarter earnings and focused on the company's positive outlook comments. Its Natural Gas Liquids-focused infrastructure assets are positioned to benefit from strong producer activity across Texas' Permian basin. US Liquefied Natural Gas (LNG) exporter Cheniere Energy (+1%) announced better-than-expected June quarter earnings, and raised 2023 earnings guidance for the second time, reflecting a positive outlook for global LNG demand.

Canadian-listed Altagas (+1%), whose assets include US natural gas utilities and energy midstream assets in Western Canada, increased as investors welcomed news of a planned acquisition. Altagas intends to buy natural gas-related infrastructure assets from Tidewater Midstream and Infrastructure (flat, not in our focus list) for C$650 million, in a move that would bolster its midstream operations.

The worst performing stock in the portfolio was Chinese gas utility ENN Energy (-34%). June quarter earnings were below market consensus owing to reduced demand from commercial and industrial customers, particularly gas-fired power plants. The company warned that natural gas sales, which had been expected to grow by 10% in 2023, were likely to fall by 5% against the backdrop of a softening Chinese economy.

The portfolio's other Chinese holdings, including Beijing Airport (-19%) and water utility Guangdong Investment (-9%), also declined. Toll road operator Jiangsu Expressway

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

(-1%) held up better after June quarter earnings were in line with market expectations. Traffic volumes on its most important asset, the Shanghai-Nanjing Expressway, exceeded 2019 levels during the first half of 2023.

US utility stocks were also an area of weakness for the portfolio. PPL Corp (-9%) lagged despite reiterating 2023 earnings guidance and affirming Earnings Per Share growth of between 6% and 8% per annum, through to "at least" 2026. Dominion Energy (-8%) fell as the company's ongoing business review continued to weigh on investor sentiment towards the stock. NextEra Energy (-8%), whose Energy Resources entity has the largest market share of North American wind capacity, underperformed on news of quality problems with Siemens Gamesa's wind turbines. We note that NextEra uses General Electric turbines for its wind operations.

Fund activity

During the month, a position was initiated in utility / energy midstream company UGI Corp. The business consists of four distinct segments; regulated gas utilities in Pennsylvania and West Virginia; energy midstream in the Appalachia region; propane distribution in the US (AmeriGas Propane); and propane distribution in Europe (UGI International). In recent months, a growing focus on the structural headwinds facing its propane businesses, and concerns that the company may seek to acquire additional utility assets, has seen the stock trade down to very appealing levels. Towards the end of August, UGI announced plans to carry out a strategic review of the company, with the aim of reducing earnings volatility and strengthening its balance sheet.

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. Robust traffic volumes and inflation-linked toll increases are leading 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 soft commuter traffic levels on some intra-city roads as the return-to-office trend settles. Overall however we expect toll roads to remain strong performers as higher tolls support earnings growth, and demand proves resilient.

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. While concerns for leasing demand have weighed on the sector recently, and higher interest rates have proved more of a headwind to earnings growth than in previous years, these factors are now better reflected in valuation multiples.

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. However North American utilities in particular have lagged in recent months as defensive assets have been overlooked by investors. We believe the extent of this underperformance appears to be extreme, given the utilities' generally sound fundamentals, undemanding valuation multiples and substantial longer term growth drivers.

The portfolio is underweight the airports sector. Following strong share price gains driven by the post-covid passenger recovery, mispricing in this space is becoming less evident. We remain most positive on airport operators with exposure to tourist-focused destinations, particularly those serviced by low cost carrier airlines.

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