First Sentier Global Listed Infrastructure Fund Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | October 2023

Market review

Global Listed Infrastructure dipped in October as a renewed focus on geopolitical risk outweighed generally strong quarterly earnings results from the asset class. The FTSE Global Core Infrastructure 50/50 index returned -1.7% while the MSCI World index^ ended the month -2.9% lower.

The best performing infrastructure sector was Towers / Data Centres (+3%), suggesting that the higher interest rate environment may have now largely been priced in to these stocks. Water / Waste (+2%) and Utilities / Renewables (+1%) also recovered ground. The worst performing infrastructure sector was Airports (-8%). Mexican operators were adversely affected by unexpected changes to the terms of the regulatory framework that governs their allowed earnings.

The best performing infrastructure region was the United Kingdom (+4%). The country's water utilities gained on a positive market reaction to business plans submitted to the regulator for the 2025-2030 period. The worst performing infrastructure region was Latin America (-10%), owing to underperformance from the region's airports and toll roads.

Fund performance

The Fund returned -2.3% after fees in October, -54bps behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was large cap US tower company American Tower (+9%) which gained after announcing better-than-expected September quarter earnings and raising earnings guidance for the year. The company's US tower, international tower and data centre business segments all performed well during the period, reflecting stable leasing trends and effective cost control. Investors also welcomed signs of progress in the anticipated sale of its Indian towers business. Crown Castle (+1%) also reported September quarter earnings. Although leasing growth rates on its tower portfolio were in line with expectations, guidance for 2024 earnings was weaker than expected.

US utilities held up well, with Georgia-based Southern Company (+4%) and Minnesota-based Xcel Energy (+4%) amongst the better performers in this space. Both companies have recently released updated capital expenditure plans. Southern Company's proposals for its Georgia Power business include the expansion of its renewables and battery storage assets, as well as new gas-fired power plants, in order to meet Georgia's rapidly growing energy needs. As regulated US utilities are typically allowed to earn a reasonable return on money spent in this way, higher capex is likely to prove supportive of earnings growth. PPL Corp (+4%), FirstEnergy (+4%) and Entergy (+3%) also gained. Virginia-based Dominion Energy (-10%) bucked this positive trend despite a lack of material company-specific news, as investors remained focused on its still-underway business review.

Healthy September quarter earnings numbers, including positive organic volume growth and firm pricing, proved supportive of US waste management company Republic Services (+4%). West Coast freight rail operator Union Pacific (+2%) gained on better-than-expected September quarter results and upbeat outlook comments from recently-appointed CEO Jim Vena. However, East Coast peer CSX Corp (-3%) reported lower-than-expected third quarter earnings, owing to lacklustre volumes and higher costs.

The worst performing stock in the portfolio was Beijing Airport (-21%), as August passenger numbers highlighted that its traffic recovery trajectory remained slower than

^ MSCI World Net Total Return Index (USD) is provided for information purposes only. Index returns are net of tax. Data to 31 October 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.

hoped. The flight recovery between China and North America has been particularly slow to date. Mexican peer ASUR (-9%) fell after the government unexpectedly announced changes to the formula that is used to calculate the tariffs that airports are allowed to charge. The country's main airport operators GAP (-25%, not held), OMAB (-27%, not held) and ASUR are currently assessing the likely impact of the changes. Spanish operator AENA (-4%) also lagged, following a proposal by left-wing political parties to limit short-haul domestic flights in Spain where rail alternatives of less than two and a half hours exist.

Chinese water utility Guangdong Investment (-8%) and gas utility ENN Energy (-8%) underperformed on persistent concerns that the slow pace of China's economic recovery and weakness in the country's property market may weigh on earnings.

Fund activity

The Fund initiated a position in Severn Trent, one of the UK's largest water utilities, which provides water and waste water services to over eight million people across central England and Wales. The UK water sector has come under mounting pressure this year on concerns for debt levels and insufficient investment in its networks. This has caused Severn Trent to trade down to attractive valuation multiples. The company has recently taken meaningful steps to address these issues, raising equity in September 2023 and filing a constructive business plan with the UK water regulator.

The Fund also added a position in Norfolk Southern, a large cap freight rail company which owns and operates a 31,000km track network the eastern half of the United States. The company's share price has underperformed peers in recent months as investors have been unimpressed by its management team's response to a challenging operating environment (rising costs and lacklustre haulage volume growth). Disappointing September quarter earnings saw the stock trade down further, providing an appealing entry point. From here, we believe the stock has scope to trade back closer to peers' valuation multiples, as costs stabilise and volumes begin to recover.

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 represent the Fund's largest overweight position. During the year, robust traffic volumes and inflation-linked toll increases have translated 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.

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 interest rates have risen. We believe the extent of this underperformance appears to be extreme, given utilities' generally sound fundamentals, undemanding valuation multiples and substantial longer term growth drivers.

The portfolio is underweight the energy midstream space. 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 31 October 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.