

First Sentier Global Listed Infrastructure Fund Monthly review and outlook

Monthly Review and Outlook | November 2020

Market review

Global Listed Infrastructure climbed strongly in November, helped by signs of progress in the fight against coronavirus and optimism regarding Joe Biden's victory in the US presidential election. The best performing infrastructure sector was Airports (+22%) as investors looked forward to a return to international travel. Pipelines (+15%) also gained, on the view that a coronavirus vaccine will lead to a quicker economic recovery and greater demand for fuel.

The worst performing infrastructure sector was Multi-Utilities (-1%) as investors switched to assets with economic sensitivity. Electric Utilities (+3%) delivered positive returns, but also underperformed rising markets for the same reason. Having performed well when coronavirus was worsening, Towers / Data Centres (+2%) lagged in November.

The best performing infrastructure region was Europe ex-UK (+17%), which was led higher by its airports and toll road operators. Infrastructure stocks in Latin America (+14%) also outperformed on the view that a return to international travel will support developing economies. The worst performing infrastructure region was the United Kingdom (-3%) reflecting its high utilities weighting, and investor caution ahead of the year-end deadline for Brexit trade talks.

Fund performance

The Fund returned +7.2% after fees in November¹, 139 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was French toll road operator Eiffage (+32%) which rallied strongly as investor sentiment improved. The company's contracting business segment is well positioned to benefit from the €100 billion French economic stimulus package announced in September. After exiting the first lockdowns, traffic volumes on its French motorway business have proved resilient. Larger peer Vinci (+26%) outperformed for similar reasons. Pre-pandemic, over 10% of its earnings came from its airport concessions business, giving it additional scope to benefit from a return to economic normality.

European airports Flughafen Zurich (+24%) and AENA (+18%) were propelled higher by the prospect of a return to international

travel. As well as positive vaccine news, Mexican operator ASUR (+23%) was supported by a positive revision to the regulatory terms for peer GAP that will allow it to increase tariffs; and sequential improvements in passenger volumes.

Energy infrastructure stocks were also beneficiaries of November's developments. French-listed energy supply and storage business Rubis (+27%) was buoyed by the improving outlook and the announcement of a €250 million share buy-back, equivalent to ~9% of its market capitalisation. Pembina Pipeline (+19%) and Magellan Midstream Partners (+19%) rallied strongly as investors identified value after a sustained period of underperformance. Best-in-class LNG exporter Cheniere (+18%) also rose on the prospect of strengthening natural gas demand from Asia. Gas utility China Gas (+20%) outperformed on the view that a return to economic normality in China would increase demand for natural gas from its industrial and commercial customers. Government policies promoting a switch from coal to natural gas for residential heating continue to underpin demand from retail customers.

The worst performing stock in the portfolio was UK multi-utility National Grid (-6%), on investor caution ahead of the UK regulator's Final Determination of RIIO-2 (the price framework that will apply to the country's gas and electricity transmission utilities for the next five years) in December. UK water utility Severn Trent (-2%) lagged as investors rotated away from defensive businesses, despite strong Outcome Delivery Incentives performance (a mechanism allowing the company to earn financial incentives in return for meeting key operational performance targets). Electric utility SSE (+7%) fared better; its offshore wind business appears likely to be a primary beneficiary of the UK's recently announced 10-point plan for a green industrial revolution. US utilities including Alliant Energy (-5%), Xcel Energy (-4%) and Dominion Energy (-2%) paused for breath in November, following several months' strong performance in the lead-up to the US presidential election.

Mobile Towers lagged as these perceived safe havens suffered a reversal of equity flows, including portfolio holdings SBA Communications (-1%) and American Tower (+2%). Despite this, Italian operator Inwit (+16%) released an updated business plan with better-than-expected earnings growth and dividend payout. US-based Crown Castle (+7%) was the first tower company to sign a leasing agreement with new entrant DISH, as a precursor to further revenue growth ahead.

¹ First Sentier Global Listed Infrastructure Fund's cumulative return over one month. The performance of the fund is based on the Singapore unit trust, net of fees, expressed in SGD terms.

All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

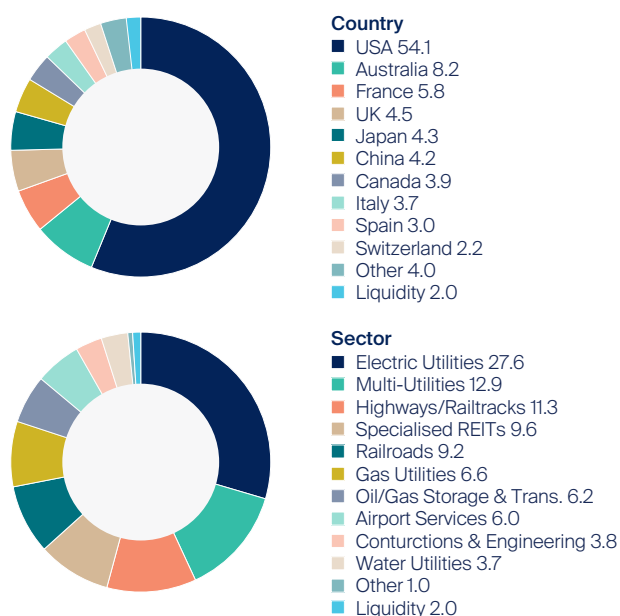
Annualised performance in SGD (%)²

	1 yr	3 yrs	5 yrs	10 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-2.6	2.8	6.0	7.6	4.2
Class A (SGD - H Dist) (Inc initial charges)	-7.5	1.0	4.9	7.1	3.8
Benchmark*	-2.6	4.6	7.8	9.0	4.7

Cumulative performance in SGD (%)²

	3 mths	1 yr	3 yrs	5 yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	4.6	-2.6	8.5	33.7	69.5
Class A (SGD - H Dist) (Inc initial charges)	-0.7	-7.5	3.1	27.0	61.0
Benchmark*	4.4	-2.6	14.3	45.8	80.5

Asset allocation (%)²



Top 10 holdings (%)²

Stock Name	Sector	%
American Tower Corporation	(Specialised REITs)	6.2
Transurban	(Highways/Railtracks)	6.2
Nextera Energy Inc	(Electric Utilities)	6.0
Dominion Energy Inc COM	(Multi-Utilities)	5.0
Eversource Energy	(Electric Utilities)	3.2
Aena SA	(Airport Services)	3.0
CenterPoint Energy, Inc.	(Multi-Utilities)	2.8
Emera Inc	(Electric Utilities)	2.6
Alliant Energy Corporation	(Electric Utilities)	2.6
SBA Communications Corp Class A	(Specialised REITs)	2.6

Fund activity

The Fund initiated a position in FirstEnergy, a US regulated utility with 24,000 miles of transmission network connecting the Midwest and Mid-Atlantic regions; and ten electric distribution companies serving customers in Ohio, Pennsylvania, New Jersey, West Virginia, Maryland and New York. Company executives have been implicated in a bribery scandal in the company's Ohio business, relating to the payment of state subsidies to a former FirstEnergy subsidiary. As a result, FirstEnergy's share price has materially underperformed peers in recent months. While concerning and likely to create regulatory uncertainty for FirstEnergy's Ohio operations, our analysis suggests the market has over-reacted to events and created a mispricing opportunity.

Arizona-based utility Pinnacle West was also added to the portfolio. The company's main businesses are Arizona Public Service, the state's largest integrated electric utility; and Bright Canyon Energy, a transmission and renewable energy developer. The company operates in what has been a difficult regulatory jurisdiction. However the appointment of a well-regarded new CEO to the company, and new commissioners to the state utility regulator, are now expected to lead to a more constructive regulatory environment. Solar energy, now the lowest-cost new generation source in many parts of the US, is well suited to Arizona's climate and likely to represent a long term source of capex and earnings growth for the company.

Balancing these two US utility additions, American Electric Power was sold on the view that valuation multiples now reflect its capex-driven growth opportunities. The company continues to replace aging transmission networks and invest in renewables across its sprawling mid-West service territory. New Mexico and west Texas electric utility PNM Resources was also sold after agreeing in October to an US\$8 billion takeover offer from Avangrid. The portfolio's exposure to the Airport sector was trimmed by divesting positions in Auckland Airport and Signature Aviation after recent share price gains. Chinese gas utility ENN Energy was also divested after sharp share price gains moved the stock to a lower ranking within our investment process.

Market outlook and fund positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, railroads, utilities, pipelines, and wireless towers. 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 listed infrastructure asset class delivered strong increases in November, helping to reduce the losses seen earlier in the year. While changes to share prices have in many cases been substantial, valuations still look reasonable overall. However mispricing in some sectors has now reduced, and portfolio weights have been adjusted to reflect this.

The Fund's exposure to the Airports sector has been reduced. While valuation multiples now reflect positive scenarios over the months ahead, it remains to be seen how quickly consumer behaviour will return to normal. Business travel may never regain previous levels. The decision by Singapore and Hong Kong to

² Source: Lipper & First Sentier Investors. Single pricing basis with net income reinvested. Data as at 30 November 2020. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. First Sentier Global Listed Infrastructure Fund inception date: 3 March 2008.

* From inception - 31 May 08 : S&P Global Infrastructure Index; From 1 Jun 08 - 31 Mar 15 : UBS Global Infrastructure and Utilities 50-50 Index; From 1 Apr 15 : FTSE Global Core Infrastructure 50/50 Index.

delay the launch of an air “travel bubble”, originally scheduled for mid-November but now pushed back to 2021, serves as a reminder of the logistical challenges still facing the sector. An underweight exposure to the Pipelines sector has been maintained, reflecting the structural headwinds that many of these companies face as Net Zero initiatives gather pace.

More positively, we believe Toll roads still represent exceptional value, even after recent gains. Traffic volumes have proved more resilient than those of other transport infrastructure assets, with positive momentum in many regions as the year progressed. While increased flexibility to work-from-home may result in adjustments to traffic, we see clear evidence that people prefer to travel by private car than by public transport in order to maintain social distancing. The portfolio’s exposure to the Towers and

Data Centres sector was raised from neutral to overweight, as relative value emerged. The sector’s structural growth drivers of increasing data mobility / connectivity needs in the years ahead remain intact.

The Fund has maintained a large absolute exposure to Multi/Electric utilities. The resilience and predictability of regulated utility earnings – showcased over the past year – does not appear to be fully appreciated by the market. Further, we expect that the ongoing repair and replacement of old equipment and technology, along with the accelerating build-out of renewables, will represent a source of steady earnings growth over long time frames, particularly for larger utilities with substantial economies of scale.

Source : Company data, First Sentier Investors, as of end of November 2020

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