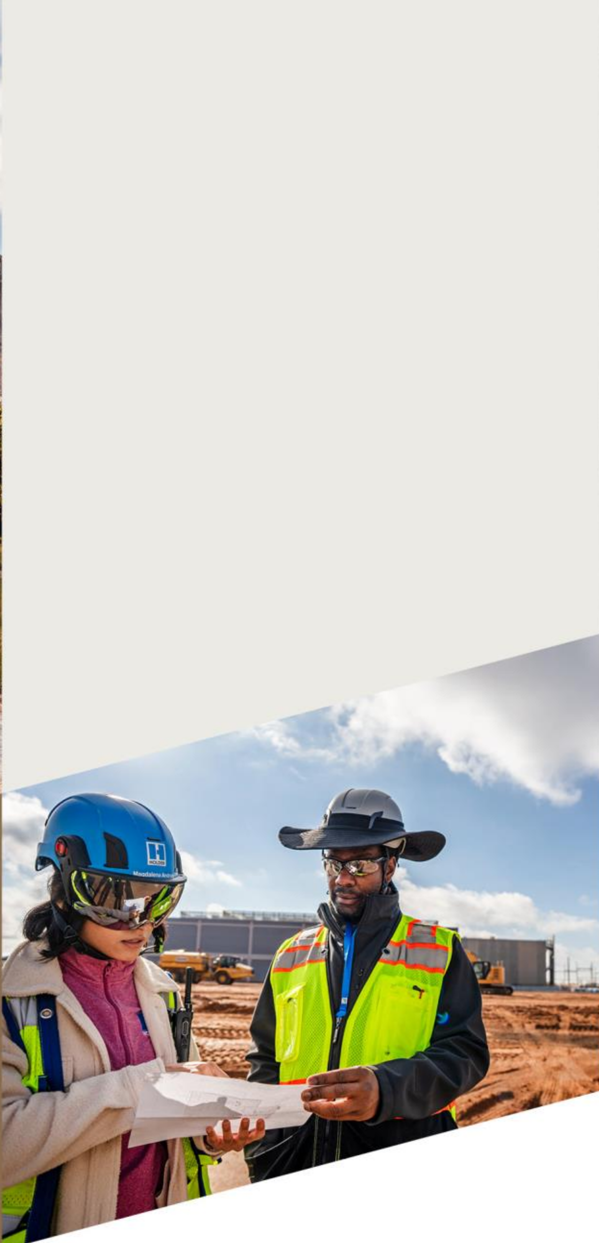

Q1 2025 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

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2025 Q1 review

Key market drivers
Global equities saw higher volatility in Q1 and struggled amid increasing geopolitical tensions and recession fears in the US. President Trump continued to escalate trade concerns with proposed tariffs on imports, which resulted in falling consumer confidence and downgrades to growth outlook. Furthermore, though higher than forecasted inflation figures were reported in both the US and the UK, adding further uncertainty around future interest rate cuts this year, yields did moderate during the quarter. In this volatile environment, the Listed Infrastructure fund increased by more than 4%, outperforming the broader equity indices by more than 1000 bps, as well as its benchmark, firmly outlining its overall stable return profile.

Communication towers, toll roads and regulated utilities were all among the best performing sectors within the portfolio, driven by continuing solid reporting results for the previous year, while railroads and less-than-truckload (LTL) were weak, largely due to rising trade concerns and associated freight development. Geographically, European and UK equities were the best performers, while Australian equities were slightly weak during the quarter.

Key portfolio drivers
Transport infrastructure delivered a mixed performance during the quarter, also driven by geographic considerations. While the toll roads and airports in our portfolio, which are all based in Europe, performed very strongly during the quarter, the US-based railroads and LTLs were all weak, mainly influenced by impending tariff announcements by the US Government. Vinci, the French toll road operator, was the strongest performing company in our portfolio and is now trading at or close to all-time highs. The company reported solid FY 2024 results, overcoming the uncertainty regarding the 'French infrastructure tax', and announced a share buyback. However, the US LTLs – ODFL and ARCB – struggled during the quarter on the back of the noise around Canadian and Mexican tariffs, which would impact the US freight transportation sector. The reported volumes by February were largely in-line with expectations, but there may be some weakness if and when higher tariffs are implemented.

Communication infrastructure performance was bifurcated during the quarter, with towers performing well, but Equinix – the sole data center operator in the portfolio – lagging. While concerns have overall persisted on communication infrastructure due to rising yields, the healthy FY results seem to largely belie these fears so far. For example, Cellnex, the European tower company and the largest position in the fund, announced good FY 2024 results and a EUR 800m share buyback program during the quarter. The company continues to trade at a significant discount compared to both peers and private transactions, making buybacks highly attractive. Additionally, management is exploring further asset sales, which could serve as additional catalysts and may lead to an anticipation of its first dividend payment in 2025, previously planned for next year.

Utilities were a standout performer during Q1, with four sub-sectors contributing positively to the portfolio, with only renewables declining in this period. The performance was led by water, followed by waste operators, regulated utilities and energy, in that order. Within utilities, Elia was a standout performer, as the Belgian grid operator announced a capital raise to fund its capex plan, which removed a key overhang on the stock. It announced an EUR 2.2bn equity

package, which includes 850m through a private placement and an EUR 1.35bn rights issue, which was already 55% subscribed by four anchor investors. This came at the same time as the company reported strong FY 2024 results, with net profit up 30%, and the regulated asset base increasing by 28%. ENN Energy – the Chinese gas distribution utility – was another strong performer during the month as it received a take-private offer from one of its anchor investors, with the acquisition price standing at a 35% premium to its previous close. ENN Energy is still trading approx. 20% below the acquisition price, but we believe this gap will narrow as outstanding approvals are received.

Finally, social infrastructure was also a good performer, as BBGI announced an agreed take-over offer from British Columbia Investment Management, valuing the company at just over GBP 1bn, a 21% premium to the previous day's price. Completion of the deal is expected in Q3 25, after which the shares will be delisted. Given that the stock subsequently traded at a small discount to the agreed takeover price, we exited the position.

Portfolio positioning and outlook

During the quarter, we made a few changes to the portfolio, with the main objective of reducing our exposure to transport, following the strong performance in Europe and emerging concerns in US trade, and reallocating to utilities and waste operators. We also divested our position in BBGI, following the takeover offer and increased our position in HICL within the same sector, as it continues to trade >20% discount to NAV. Furthermore, we divested our position in Transurban, and built a new position in OMA, which is one of the largest Mexican Airport operators, with a strong focus on domestic passengers, rather than international.

Among sectors, communications infrastructure remains one of our key sector focuses over the next few years, given the strong tailwinds for the sector. We continue to see large investment needs for the sector that could drive earnings growth over the medium to long term. We see more scope of outsourcing towers by MNOs in Europe, and the 5G investments by the US-based MNOs are expected to accelerate further. These are companies that are expected to grow at mid-to-high single digits (higher in certain cases), with very long-term contracts (~30Y in some cases), and with very healthy EBITDA margins (>50%). They also have inflation escalators, with very low maintenance capex as % of revenue. We do not believe the sub-20x P/AFFO multiples will last for very long, and the market will react positively to earnings growth for the sector. Data centers are also expected to benefit from such long-term secular trends. We have increased our position in communication infrastructure over the past two years since we find that underlying fundamentals and leasing activity all remain robust.

We continue to see good opportunities within regulated utilities, especially in certain specific names, both in the US and Europe. While most of the companies have been reporting healthy results since Covid, it is only in 2024 that we saw a healthy growth in their returns, compensating for the stale performance in the prior years. Despite the good performance, we believe the mid-to-long term outlook for our portfolio companies within this segment remains healthy, and in some cases, the valuation is extremely compelling (China utilities and Elia, for example, which performed very strongly in Q1). However, within the sector, we continue to emphasize on electric and water utilities, and have changed allocations accordingly. Furthermore, those utilities that are subject to stable regulation, have a strong balance sheet and meaningful

capex on their regulated asset base, should also provide better performance even in a rising interest rate environment.

We remain positive on the US waste managers, and our exposure to the sector has grown accordingly over the past two years. Finally, while performance of transport infrastructure has recovered to some extent, we find that toll road traffic has recovered more meaningfully, but airport passenger numbers are still slightly below pre-Covid levels for certain companies. Furthermore, the toll roads are also trading at a more appealing valuations than airports, and we therefore have a higher allocation to the former. We are cautious on airports over the medium-term, and especially on those that are exposed to international long-haul, business and transfer traffic. We also remain positive on the outlook for railroads.

In summary, our portfolio is well-balanced between defensiveness and growth, and well-diversified across infrastructure sectors. 2/3rd of the portfolio remains invested in less GDP-sensitive sectors such as regulated utilities, towers and social infrastructure operators, which will likely still provide growth even in an economic downturn scenario. The underlying portfolio companies continue to perform well from a fundamental point of view. Furthermore, a scenario of rising nominal rates is not a negative per se for Partners Group Listed Infrastructure as more than 70% of the portfolio companies' underlying revenues are directly or indirectly linked to inflation.

ESG

We believe it is worthwhile highlighting that the Fund follows an ESG approach like all Partners Group products. Partners Group has been an early mover in ESG, as a UNPRI signatory since 2008 and with a dedicated ESG team that has been in place for many years. We have in the past and continue to decline certain investments purely on ESG concerns and the exclusion of power generation and in particular "dirty" coal fired power plants and "tail risky" nuclear power plants makes our Fund even further ESG relevant. We would also like to highlight that our fund is rated 'AA' – by the MSCI ESG platform.

Contacts

listedinvestments@partnersgroup.com
www.partnersgroup.com

Zug
Unternehmer-Park 3
6340 Baar
Switzerland
T +41 41 784 6000

Denver
1200 Entrepreneurial Drive
Broomfield, CO 80021
USA
T +1 303 606 3600

Houston
Williams Tower
2800 Post Oak Blvd.
Suite 5880
Houston, TX 77056|
USA
T +1 346 701 3900

Toronto
Exchange Tower, 130 King
Street West, Suite 2830
Toronto, ON M5X 1E2
Canada
T +1 416 521 2530

New York
The Grace Building
1114 Avenue of the Americas,
41st Floor
New York, NY 10036
USA
T +1 212 908 26 00

São Paulo
Rua Joaquim Floriano,
1120 – 11º andar
CEP 04534-004,
São Paulo – SP
Brazil
T +55 11 3528 6500

London
33 Charterhouse Street
London EC1M 6HA
United Kingdom
T +44 20 7575 2500

Guernsey
P.O. Bos 477
Tudor House, Le Bordage
St Peter Port, Guernsey
Channel Islands, GY1 1BT
T +44 1481 711 690

Paris
29-31 rue Saint Augustin
75002 Paris
France
T +33 1 70 99 30 00

Luxembourg
35D, avenue J.F. Kennedy
L-1855 Luxembourg
B.P. 2178, L-1021 Luxembourg
T +352 27 48 28 1

Milan
Via della Moscova 3
20121 Milan
Italy
T +39 02 888 369 1

Munich
Lenbachpalais
Lenbachplatz 3
80333 Munich
Germany
T +49 89 383 89 240

Dubai
Office 107, level 1
Gate Village 11, The Exchange
DIFC, Dubai, UAE
POBOX 507253
T +971 4 316 9555

Mumbai
601, 6th Floor, Piramal Tower
Peninsula Corporate Park
Ganapatrao Kadam Marg,
Lower Parel
Mumbai-400013
India
T +91 22 4289 4200

Singapore
8 Marina View
Asia Square Tower 1 #37-01
Singapore 018960
T +65 6671 3500

Manila
18/F Seven/NEO Building
5th Avenue Corner 26th Street
Bonifacio Global City, Taguig
1634 Metro Manila
Philippines
T + 63 2804 7100

Shanghai
Unit 1904-1906A, Level 19
Tower I, Jing An Kerry Center
No. 1515 West Nanjing Road
Jing An District,
Shanghai 200040
China
T +8621 2221 8666

Seoul
25th Fl. (Gangnam Finance
Center, Yeoksam-Dong)
152 Teheranro
Gangnam-Gu, Seoul 135-984
South Korea
T +82 2 6190 7000

Tokyo
Marunouchi Park Bldg. 6F
2-6-1 Marunouchi, Chiyoda-ku
Tokyo 100-6906
Japan
T +81 3 5219 3700

Sydney
Level 32, Deutsche Bank Place
126 Phillip Street
Sydney NSW 2000
Australia
T +61 2 8216 1900

Hong Kong
Suites 21-22, 18F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong
T +852 3610 0408