Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

30 SEPTEMBER 2023

Q3 2023 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

Disclaimer

This material has been prepared solely for purposes of illustration and discussion. Under no circumstances should the information contained herein be used or considered as an offer to sell, or solicitation of an offer to buy any security. Any security offering is subject to certain investor eligibility criteria as detailed in the applicable offering documents. The information contained herein is confidential and may not be reproduced or circulated in whole or in part. The information is in summary form for convenience of presentation, it is not complete and it should not be relied upon as such.

All information, including performance information, has been prepared in good faith; however Partners Group makes no representation or warranty express or implied, as to the accuracy or completeness of the information, and nothing herein shall be relied upon as a promise or representation as to past or future performance. This material may include information that is based, in part or in full, on hypothetical assumptions, models and/or other analysis of Partners Group (which may not necessarily be described herein), no representation or warranty is made as to the reasonableness of any such assumptions, models or analysis. Any charts which represent the composition of a portfolio of private markets investments serve as guidance only and are not intended to be an assurance of the actual allocation of private markets investments. The information set forth herein was gathered from various sources which Partners Group believes, but does not guarantee, to be reliable. Unless stated otherwise, any opinions expressed herein are current as of the date hereof and are subject to change at any time. All sources which have not been otherwise credited have derived from Partners Group.

2023 Q3 review

Key market drivers

Following the strong performance in Q2, equity markets cooled off in Q3 as central banks in the US and in Europe remained hawkish and continued hiking rates. There was growing concern during the quarter that rates will also be held higher for longer to tame inflation, resulting in the yield on the US 10Y government bond nearing 5% during the quarter. This has had a particularly negative impact on long duration assets, such as REITs and infrastructure operators. However, while the share price performance of most infrastructure sectors was negative, the businesses themselves have remained in a healthy shape and reported overall solid Q2 numbers during the quarter.

During Q3, the Partners Group Listed Investments SICAV - Listed Infrastructure fell by -7%, underperforming its benchmark by over 300 bps. The relative underperformance against the benchmark is explained by the difference in allocations and the performance of the energy midstream sector as well as communication infrastructure. During Q3, the energy midstream sector generated a positive performance, supported by rising oil and gas prices, while all other sectors generated negative returns, with REITs and communication infrastructure particularly weak. Regulated utilities and renewables were also notable weak performers during the quarter, though transport infrastructure continued to provide some stability to performance. Equities across regions performed negatively, though Chinese and European equities were especially weak during Q3.

Key portfolio drivers

Within transport, toll roads and railroads delivered modestly negative to flat performance, but airports were slightly worse. Union Pacific – the largest North American Class I railroad operator – reported H1 results, which were overall underwhelming, with volumes and revenues both down 2-5%. Despite the weak results, the shares performed very strongly in July due to the appointment of Jim Vena as the CEO beginning in August. Jim Vena previously served as the COO of UNP between 2019-21 and is considered among the best rail executives across North America. Rumo, the Brazilian rail operator, has remained among the best performing stocks this year as healthy volumes and solid pricing has supported earnings growth in 2023. Vinci, the French toll road and airport concessions operator, also reported strong H1 results, with toll road traffic already above 2019 levels, and airport pax recovering almost to pre-covid levels, supporting a higher 2023 net income guidance compared to the previous year.

Communication infrastructure was especially weak during the quarter, with the US towers and data centers all performing quite poorly, even though business operating performance has held up well despite rising rates. The US towers and data centers are all structured as REITs, which have suffered this year as rates have risen, though underlying organic leasing growth especially in the US continues to trend at >5% levels. As a result of rising rates, and with valuations of towers/DCs within private markets portfolio still trading at elevated valuations, these companies have sensibly moved away from M&A and are focusing on deleveraging. The companies reported healthy Q2 numbers, with little evidence of any slowdown in leasing growth, though with some noise around FX movements for those with international operations. Cellnex had a similarly weak quarter, though it has emphasized that it will focus on deleveraging, and we believe it is on track to receive an investment grade rating by 2024. However, the shares have been weak as long-dated bond yields have risen.

Within utilities, the regulated T&D and water services operators performed rather weakly, despite reporting mostly positive Q2 results, with very few exceptions. Altagas – the Canadian utility and midstream operator – which was added to our portfolio earlier this year, was the best performing company within our portfolio during Q2. It reported good Q2 results, is making solid progress towards

its 2023 and longer-term goals and is on-track to deliver mid-single digit dividend growth over the medium term. However, the Chinese gas utilities were particularly weak during the quarter. They posted weak Q2 results, impacted from slowing industrial activity in China. In particular, ENN Energy reported a drop of 7% y/y in H1 23 gas volumes, well below market expectations, fueling concerns that the Chinese economy is slowing quickly. Despite these short-term headwinds, Chinese gas demand remains on a secular growth trend and sector valuations at single-digit price-earnings multiples are at historical lows. Energy midstream operators were an exception, as they delivered positive performance during Q2. Williams Cos was among the top performers during the quarter, with solid results, growing cash flows and higher dividends.

Finally, both the social infrastructure operators in our portfolio reported better performance during Q3. Both the vehicles' NAV per share is expected to remain broadly flat this year, as the embedded inflation protection offsets the negative impact of higher interest rates. Moreover, their exposure to availability-based projects and regulated assets allows them to be mostly immune to a slowdown in economic activity.

Portfolio positioning and outlook

Regulated utilities and communication infrastructure both remain the largest allocations within our portfolio, though during 2022, we increased exposure to railroads and waste operators by reducing exposure selectively to pipelines and airports. In the past quarter, we have made some changes to our portfolio, as we increased the allocation to US towers and even added a new position in the sector – SBA Communications. As noted above, communications infrastructure in the US has been overall a weak performer this year, though we do not observe a similar weakness in business performance. Consequently, valuations are much more appealing than they have been in the past, hence the reason for our increase. We divested Aeroports de Paris, reducing our overall allocation to airports, as the sector has been a strong performer this year, and valuations were no longer attractive.

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 Mobile Network Operators (MNO) 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, and despite the poor performance in 2023 YTD, we find that underlying fundamentals and leasing activity all remain robust.

We continue to see good opportunities within regulated utilities. Most of the companies within the sector have reported strong H1 2023 earnings, and we expect this trend to continue. During the pandemic, the regulated utilities did not modify their medium-term investment plans or faced unfavorable changes to their regulation, both of which are promising indicators for the sector's earnings growth potential. 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 recovered meaningfully during last summer, but airport passenger numbers are still slightly below pre-Covid levels. This is evident from observing Vinci’s reported numbers as toll road traffic in 2022 was above 2019 levels, while airport passengers remain below the 2019 levels for all airports in our portfolio, as well as in our wider coverage universe. We continue to take a cautious approach on the sector and believe traffic on toll-roads will continue to recover faster than airports, as appetite for travel remains. Furthermore, toll-road valuations are attractive. 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, we have slightly shifted our portfolio towards companies that we believe will do better in an inflationary environment. However, 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 2001 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

www.partnersgroup.com

Zug
Zugerstrasse 57
6341 Baar-Zug
Switzerland
T +41 41 784 6000

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

Houston
5847 San Felipe Street, Suite 1730
Houston, TX 77057
USA
T +1 713 821 1622

Toronto
Exchange Tower, 130 King Street West,
Suite 1843
Toronto, ON M5X 1E3
Canada
T +1 416 865 2033

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 – 11° andar
CEP 04534-004, São Paulo – SP
Brazil
T +55 11 3528 6500

London
110 Bishopsgate, 14th floor
London EC2N 4AY
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
14, rue Cambacérès
75008 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
Skygarden im Arnulfpark
Erika-Mann-Str. 7
80636 Munich
Germany
T +49 89 38 38 92 0

Dubai
Office 601, Level 6
Index Tower, DIFC
POBOX 507253
Dubai, UAE
T +971 4 316 9555

Mumbai
Suite 3103 (Four Seasons Hotel)
Plot No. 1/136, Dr. E Moses Road, Worli
Mumbai 400 018
India
T +91 22 2481 8750

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