REALIZING POTENTIAL IN PRIVATE MARKETS

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Q4 2023 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

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2023 Q4 review

Key market drivers

Following the weak performance in Q3, equity markets rebounded strongly in Q4, supported by robust economic growth in the US, resilience in the Eurozone economy, and a softening of long-dated yields both in the US and in Europe. Investors now expect the US Federal Reserve to start cutting rates as soon as the first half of 2024, ending the current rate hiking cycle. At the same time, the US economy continues to be resilient, with Q3 GDP revised higher to 5.2% and both investment and consumer activity remaining robust. With softening inflation data, government bond yields fell accordingly, with the US 10-year yield falling below 4% and the German 10-year yield falling below 2%.

During Q4, the Partners Group Listed Investments SICAV - Listed Infrastructure fund rose by 10.3%, including its strongest ever performance month in November (9.6%). In Q4, it outperformed both its benchmark (by over 450 bps) and the MSCI World (by over 400 bps). While lower inflation and interest rate expectations have been an important driver, this performance has been well supported by solid Q3 financial results of our underlying portfolio companies. Overall, for the year 2023, the performance of the fund was equally resilient, increasing in value by 6% and outperforming the benchmark by a substantial 400 bps. All sectors within the portfolio contributed positively to the performance in Q4, but communication towers, railroads and regulated utilities were especially strong, driven by solid Q3 financial results. Among regions, North American and European portfolio companies were the largest contributors to performance.

Key portfolio drivers

Transport infrastructure was overall a strong performer, rising by c. 10% during the quarter. Airport operators within the portfolio performed the best, rising by over 12%, followed by railroads and toll road operators, which both rose by nearly 10%. Aena, the Spanish airport operator, was the strongest performer within transport infrastructure, as it expects 2023 traffic to be above 2019 levels, helped by its focus on leisure and short-haul traffic. At Q3 results, it was also able to improve EBITDA margins by over 700bps y/y, thanks to a combination of recovery in aviation revenues, lower energy prices as well as strong commercial activities. Union Pacific and CSX also performed strongly, driven by robust Q3 results and a resilient volume and pricing outlook for 2024.

Communication infrastructure made a sharp recovery in Q4, rising by c. 16% during the quarter, and was best performing sector within the portfolio. While this recovery was helped by a fall in inflation expectations and in yields of long-dated sovereign bonds, the Q3 results helped substantially in supporting this good performance. Unsurprisingly, the US towers drove this performance, with American Tower reporting solid Q3 results. The tower company reported c. 7% organic growth, and higher operating margins, ultimately increasing the full year guidance for cash flows in 2023. Despite churn in its Indian operations, the company is still seeing healthy organic growth opportunities, especially in the US, which should also provide some support to its mid to long term business prospects. SBAC is a recent addition to our portfolio and was also one of the top 3 performers during the quarter. It also reported strong quarterly results, growing adjusted cash flows from operations (AFFO) by 7% y/y and increasing the full-year guidance. Given the strong results, SBA managed to reduce leverage as well as to buy back shares during the quarter.

Within utilities, the waste managers were the best performers, rising by over 12% in Q4. Waste Management, the largest US-based operator reported higher than expected Q3 results. While revenues grew by low single digits, the main driver for its performance was tight cost control and growing cash generation during Q3. Furthermore, the company was again able to increase core pricing by over 6%, exceeding cost inflation by more than 100 bps, reinforcing its strong pricing power.

Regulated utilities increased in value by approx. 7% during the quarter, but energy pipeline operators had a more muted performance, rising by 3% in the same period. Elia Group – the Belgian grid operator – also a recent addition to the portfolio, was among the top 5 performers as the company laid out mid-term targets at its Capital Markets Day. The company further expanded its capex plan both in Belgium and Germany, expecting its asset base to grow at high double-digits over the next five years. Management also reiterated that there will be no need for equity issuances over the next 18 months, which was a key concern for many investors. On the other hand, Orsted – the sole renewable operator in the portfolio – was among the worst performers as the company reported a higher-than-expected impairment charge on some its US renewables portfolio, which drove the share price down substantially during the quarter.

Finally, both the social infrastructure operators in our portfolio also recovered well during the quarter, rising by c. 9%. 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, and during 2023, we have increased our exposure to communication towers by selectively reducing the allocations to airports and to Chinese gas utilities. In the past quarter, we further increased the allocation to towers in October, when the share prices were still depressed following the weak performance in September. We reduced our allocation to transport infrastructure as the sector has recovered well in 2023. We also switched from CTEEP, the Brazilian transmission operator, to the water operator, Sabesp, since its prospects for an improved regulation and privatization had both improved. Finally, we also increased our position in Elia because we believed the valuation of its shares had become very appealing early in the quarter. The share prices recovered very well in the last two months of the year, justifying our decision to increase.

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. Most of the companies within the sector have reported strong 9M 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 has recovered more meaningfully, 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 already above 2019 levels, while airport passenger numbers are expected to exceed pre-pandemic levels only when they report 2023 numbers. 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 Investments SICAV - 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.

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