



# Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

31 MARCH 2021

## Q1 2021 Review

Partners Group Listed Investments SICAV - Listed Infrastructure



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## 2021 Q1 review

Q1 2021 has been a strong quarter for equity markets, as they continued their positive run from Q4 last year. The positive movement has been driven by the successful experience of countries with high vaccination rates in containing the virus, gradual easing of restrictions especially towards the end of the quarter, President Biden's infrastructure spending plan, and overall supportive policies by central governments. Furthermore, growth is expected to recover quickly in 2021, boosted by the stimulus checks in the US, a low 2020 base, and a generally high savings rate among the populace over the last year. Partners Group Listed Investments SICAV - Listed Infrastructure Fund rose by 6% in Q1, after a slow start to the year. It is currently slightly underperforming the benchmark by 100 bps, mainly because of the underweight in pipelines, which has been the best performing infrastructure sector this year on the back of higher oil and gas prices and recovering energy demand. All sectors in the portfolio contributed positively to the performance, except for airports, which were muted.

The transportation infrastructure sector had a more sedate performance as a result of lockdowns affecting many parts of the world, with low traffic on toll roads and low pax numbers for airports. However, the railroads sector especially in the US was one of the strongest performing sectors in the portfolio, driven by good results, recovering freight growth, and solid cost control measures. Furthermore, among North American railroads, the shares were also driven to some extent by the agreement reached between Canadian Pacific and Kansas City Southern for the former to acquire the latter, pending approval by the STB (regulator in the US). The Brazilian railroad operator, Rumo, also had a good quarter on the back of rising agricultural freight volumes. On the other hand, toll road operators such as Ferrovial had a weak performance after new restrictions were imposed in the UK, seeing Heathrow passenger numbers drop as much as 83% for the month of December, and clouding the outlook for 2021. Sydney Airport was another weak performer following more government-imposed travel restrictions in Australia during Q1.

Pipelines have been the strongest performer in the Benchmark this year, we continue to be very selective within the sector, preferring those names that have low exposure to change in commodity prices, so our approach remains consistent. Regulated utilities, waste managers and the water sector all performed strongly in March and helped the Fund's strong outperformance during the month. Most of the regulated utilities reported solid FY 2020, with none of them changing their investment plans or earnings and dividends growth targets, so fundamentally, they remained rather unaffected by the pandemic. Atmos Energy, the US regulated gas distributor based in Texas, was one of the weakest performers in the portfolio during February after an uncommon cold wave struck Texas. However, the company recovered sharply in March after it became clear that their gas purchase costs would be lower than previously expected, from the Arctic freeze in Texas, and they successfully issued debt in two tranches at a low interest rate. Furthermore, the regulator is likely to allow Atmos to pass on the rise in gas costs to consumers, enabling the recovery of these costs.

Communication infrastructure - American Tower, Crown Castle, Cellnex and Equinix all performed strongly, driven by news of new agreements signed by DISH networks in the US, and by strong capex funding expected by the US mobile network operators (MNO) in the future. Communication infrastructure will remain a strong focus for us in the future, and we used the weakness in the shares in the past few months to further increase our allocations. The allocation is currently at ~18% of the portfolio.

Among other sectors, social infrastructure, waste managers, and regulated water all performed well. Veolia, the French water operator, has been one of the top performers in the portfolio this year, as there were a number of news about the takeover offer it had made for Suez last year. Private equity

firms Ardian and Global Infrastructure Partners also got involved and made an offer for Suez in line with that of Veolia's, though it is unlikely to be accepted as Veolia is insistent on retaining its 30% stake. Within waste operators, Waste Management was the best performer as its credit outlook was upgraded by Fitch Ratings to stable from negative, and there was some industry research published, which expected that the 'smart waste management market' will grow at a CAGR of 15% until 2027. Within that, the solid waste management market, where Waste Management operates, will continue to hold the highest share. Social Infrastructure operators were largely flat.

Though regulated utilities remain the largest allocation in the portfolio currently, we have been increasing exposure to towers and toll roads, as well as reducing the cash allocation in the Fund. We are seeing more investment opportunities under our coverage. However, we do not believe that the risks associated with COVID-19 have abated, while we find that the markets are pricing in a faster recovery, especially for travel-related sectors such as airports.

In summary, we have slightly shifted our portfolio towards more GDP-sensitive sectors, such as toll roads, but continue to be very selective on airports. 2/3rd of the portfolio remains invested in less GDP-sensitive sectors such as regulated utilities, towers and social infrastructure operators, which still provide growth even in an economic downturn scenario. We believe a balance between defensiveness and growth will be a better outcome for our Fund presently. We are also closely looking at further increasing certain toll roads, where we believe traffic may recover faster as we head into spring. The underlying portfolio companies, except airports and toll roads due to the COVID-19 situation, continue to do 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 roughly two thirds of the portfolio companies' underlying revenues are directly or indirectly linked to inflation.

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