Q1 2023 Review

31 MARCH 2023

Partners Group Listed Investments SICAV – Listed Infrastructure

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2023 Q1 review

Key market drivers

Global equity markets started the year on a stronger footing in January, as there were signs both in the US as well as in Europe that inflation may have peaked and could show a flattening trend in the future. The US economy also grew at a healthy pace in Q4 2022, rising by an annualised rate of 2.9%, though the labour market remained tight. In Europe, the German Chancellor stated in an interview that Germany may avoid a recession because of increased LNG terminal capacity, which could lead to a softening of energy prices in 2023. However, towards the end of the quarter, equity markets were roiled by the failure and the eventual closure of three US-based banks, including Silicon Valley Bank – the second largest bank failure in US history. In Europe, there were similarly drastic events, which led to the merger of Credit Suisse and UBS. The weaknesses in the banking sector resulted in interest rate expectations coming down, which saw stocks partly recover towards the end of March.

During Q1,the Partners Group Listed Investments SICAV - Listed Infrastructure Fund rose by 1.2%, outperforming its benchmark, which increased by 0.7%. All the gains in the Fund were achieved by January, with some softening in the remaining two months. Airports and toll roads were both strong performing sub-sectors, with communication infrastructure providing a further fillip to performance. However, regulated water utilities and social infrastructure were notable decliners during the quarter, with a more subdued performance.

Key portfolio drivers

Within transport, toll roads and airports delivered strong performance during Q1, particularly the latter. All three European airport operators in the portfolio performed very strongly in January because of a healthy recovery in passenger demand in the previous months. The Spanish airport operator Aena is considered a major beneficiary of a resumption in air travel, especially for short-haul, leisure-driven, international traffic. The company reported strong results, re-instated the dividend, and expects 2023 traffic to reach pre-Covid levels. Vinci, the French toll road operator, also reported healthy 2022 results across all segments. Toll roads, the largest segment, reported traffic above pre-Covid levels and a 7% year on year growth in EBITDA. The airport segment also continues to recover, driven by higher traffic and tariff inflation adjustments. The company generated EUR 5.4 billion of free cash flows in 2022, implying an attractive above 8% yield. Railroads on the other hand declined in performance during the quarter, especially Aurizon, the Australian railroad operator. The weak performance was driven by modest H1 2022/23 results, as the company reported a weakness in volumes and weather-related effects, which should ease in the remainder of the year.

Communication infrastructure also contributed to the positive performance of the portfolio, with Inwit – the Italian tower operator – delivering the best performance in our portfolio during the quarter. Inwit reported solid FY22 results slightly ahead of consensus and raised EPS guidance for 2023 by 25%. Management also issued a new 2023-26 business plan with increased forecasts, and a plan to increase shareholder returns via dividend and share buybacks. The company has benefitted in the current environment from its uncapped inflation protection. Equinix, the data center operator, was another robust performer in the portfolio, as growth in data demand does not any show any signs of weakness, even though the company is facing some FX headwinds due to the appreciation of the USD and its global footprint. We continue to find its business position in the interconnection segment as impregnable, and it will likely remain a growth driver for the company for many years in the future.

Within utilities, the regulated transmission and distribution utilities were flat, but the regulated water utilities declined in performance. Though Terna and National Grid were both among the leading performers during the quarter, the performance of other regulated utilities such as Altagas, Elia and

China Resources Gas dragged down the performance of the sub-sector. China Resources Gas shares were particularly volatile as the company reported disappointing results towards the end of the quarter, and the company is likely to face some headwinds in 2023. We however continue to find the stock attractively valued, and believe these headwinds are rather short-term with strong recovery expected from government's support for better gas infrastructure. Pipelines were also weak during the quarter, especially Williams, though the company reported good results for FY 2022 and the company's financial position remains strong. The sub-sector gave up some gains in Q1 after the strong performance throughout last year. The waste operators were relatively more stable, with both the portfolio companies reporting good results for FY 2022.

Finally, social infrastructure declined in performance during the quarter, driven by the weak performance of HICL Infrastructure. Though there was little company-specific news, the company reported overall in-line results.

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 made a few changes, reducing our allocation to China Resources Gas, Aurizon, Fortis and Ferrovial, and re-investing the proceeds to increase our position in Inwit, Williams, Union Pacific and National Grid. We also added two new positions to the portfolio, including Altagas – the Canadian utility – and Boralex – a renewable energy operator, also based in Canada.

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 ("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 (around 30 years in some cases), and with very healthy EBITDA margins (above 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 2022, 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 reported strong FY 2022 earnings, and we expect this trend to continue in 2023. 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 remain rather weak. 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 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, two thirds of the portfolio remain 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 'AAA' – the highest possible rating – by the MSCI ESG platform.

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