Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

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Q4 2020 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

Doris Schürch Private Infrastructure Europe | David Daum Private Infrastructure Europe

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Partners Group Listed Investments SICAV – Listed Infrastructure Q4 2020 review

Q4 2020 has been a volatile quarter for equity markets, driven by a mix of significant events throughout the quarter. The conclusion of the US presidential elections, with Joe Biden emerging as a clear winner, and the news about the positive trial results of a few Covid-19 vaccines, helped support positive performance of the markets during November, especially of sectors, such as transport infrastructure, that had underperformed in 2020. On the flip side, Covid-19 cases continued to rise globally, and in December, a new mutation of the virus was discovered in the UK, which renewed the threat of lockdowns in much of the developed world. Despite these opposing forces, infrastructure equites gained 1.7% in value during the quarter, led by the transportation sector, and especially by airports and toll roads. The fund ended 2020 outperforming the S&P Global Infrastructure Index by around 1%, with a total performance of -13.3%.

The transportation infrastructure sector was the best performing sector in Q4, led by the performance of airports, which rose by 20% on average. Toll roads and railroads also increased in value, but relatively less than the airports. However, the underlying passenger data, especially for airports, continued to remain weak, while toll roads had continually shown improvement during the summer when the lockdowns were lifted. Among the strongest performers in the portfolio during the quarter were Aeroports de Paris (ADP), Aena, Vinci and Ferrovial, all of which benefit directly from the resumption of travel. Vinci benefited from a new large contract of the Sydney Gateway motorway in Australia, worth a reported AUD 1.5bn. Ferrovial also had a strong quarter after having increased its majority stake in I-77 Managed Lanes project, acquiring an additional 15% and taking its stake to 65%.

Communication infrastructure – both towers and data centers gave away gains from H1 2020, but still finished the year as one of the better performing sectors. There was clearly some rotation out of the sector, and into other more cyclical sectors, following the news about the vaccines. Furthermore, Cellnex was among the weakest performers during the quarter, as investor concerns have grown recently that its M&A pipeline may get exhausted, after it signed three large and transformative deals during the year. However, our analysis shows that Cellnex remains in prime position in a very fragmented market in Europe and the M&A pipeline remains robust. Communications infrastructure will remain one of our key sector focuses in 2021, especially after the weak performance in Q4. We continue to see strong tailwinds for the sector that could drive investments into the sector and 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. Data centers are also expected to benefit from such long-term secular trends.

Regulated utilities remain the highest allocation within the portfolio, and though the sector had a mute performance in Q4, relatively underperforming broader equity markets, there were some notable outperformers. The Chinese gas utilities especially had a very strong quarter, with both ENN Energy and China Resources Gas registering among the top five performers within the quarter. While there was little company- specific news on the two gas utilities, it is expected that China's 2021 gas demand growth is expected to accelerate to 9% compared to 4% in 2020, largely driven by macro-economic recovery and the country's clean energy focus. In addition, PipeChina (the national pipeline company) started its operation in September, which could potentially help gas utilities to reduce supply and procurement costs. Furthermore, both companies posted strong Q3 results, with ENN announcing a special dividend to be paid in March next year, which was a positive surprise. Within pipelines, TC Energy was the only weak performer after the news that President Biden will revoke the presidential permit, which was earlier granted to Keystone XL by former President Trump.

Among social infrastructure, waste managers, and regulated water all were relatively flat or slightly negative, while underlying earnings growth remains consistent, leading to lower valuations for the sector. None of these utilities have modified their medium-term investment plans or seen unfavorable changes to their regulation, both of which are promising indicators for the sector's earnings growth potential. 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.

In summary, we remain defensively positioned though we are seeing more investment opportunities in certain sectors. As a reminder, more than 2/3rd of the portfolio is invested in less GDP-sensitive sectors such as regulated utilities, towers and social infrastructure operators. Such sectors remain the key focus areas, and we anticipate that the majority of the fund will remain invested in them, but we are 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 Covid19 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.

Contacts

partnersgroup@partnersgroup.com
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
Dubai International Financial Center
Level 3, Gate Village 10
P.O. Box 125115
Dubai, UAE
T +971 4 401 9143

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 Net Park 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
Daido Seimei Kasumigaseki Bldg. 5F
1-4-2 Kasumigaseki, Chiyoda-ku
Tokyo 100-0013
Japan
T +81 3 5532 2030

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