

Emerging Markets Strategy

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In February our Global Listed Infrastructure funds underperformed infrastructure indices, which also underperformed general equities due to the general reflation trade, as well as concerns around rising inflation and bond yields.

Markets were squarely focussed on the risks of rising inflation, as vaccine rollouts, significant levels of fiscal stimulus, the Federal Reserve's change in its inflation targeting methodology and its willingness to let the economy 'run hot' have raised expectations for a recovering economy. The result was a rapid increase in 10-year bond yields and market concerns about the risk of breakout inflation that may ultimately impact equity valuations. Under such backdrop, emerging markets have lagged the developed markets in general over the month.

Market expectations for U.S. growth continued to trend upwards with Biden's additional \$1.9 trillion stimulus plan looking increasingly likely. Vaccine rollouts gained momentum with additional vaccine availability further supporting growth and reopening expectations. COVID-19 variants and vaccine efficacy remain the key risk to the downside. Expectations for European inflation, whilst increasing, remained muted compared to the U.S., given the large output gap and lower amounts of stimulus.

Green policies took a back seat in terms of market focus but remain a strong ongoing theme, with energy transition of particular relevance to infrastructure.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to monthly performance (+4.09%) of which Indian energy infrastructure company Gujarat Gas (+1.22%) and rail operator Container Corporation of India (+1.04%) were the lead performers.

Gujarat Gas Limited (GUJGA) is a city gas distribution business. It is one of India's leading natural gas distribution companies, processing and distributing compressed natural gas and liquefied petroleum gas to transport, domestic, commercial and industrial consumers. Shares rose as Gujarat showed resilient results despite a strong spike in gas prices.

Container Corporation of India (CONCOR) is India's largest container train operator, with 75% market share. Investors are positive on CONCOR as privatisation remains on the table along with near-term commissioning of the Dedicated Freight Corridors (DFC).

Elsewhere in the Asia Pacific region, Chinese gas utility China Gas Holdings (+0.61%) also performed well.

China Gas Holdings (CGH) is the largest gas distribution utility in China with a portfolio of last-mile city gas concessions. As the most ambitious early mover to tap into rural coal-to-gas opportunities, CGH is well-positioned to achieve stronger-than-peers' volume and earnings growth. Shares rose on the back of continuing gas demand growth momentum in China.

Chinese airport operator Shanghai International Airport (-0.66%) was the largest detractor from monthly performance.

Shanghai International Airport (SHIA) is the operator of Shanghai Pudong International Airport, the major airport of Shanghai and the second-largest in China in terms of traffic. At present, SHIA's asset base consists of two terminals (T1/T2) and two new satellite terminals (S1/S2), four runways, and facilities for serving passengers and handling cargo. The retreat in shares was driven by the announced weak outcome of negotiations with DFS operator due to COVID-19 dampening international traffic in 2020, while SHIA historically has a high international traffic mix of around 50%.

All returns are in local currency.

Positioning and Outlook

This Strategy is invested in high-quality companies benefiting from structural drivers, with strong cash flow and dividend yields. We have strong conviction in the long-term opportunities within emerging markets listed infrastructure. At the regional level, the Strategy is split between Asia Pacific EM (68%) and Latin America (30%), with the remainder in cash. At the sector level, the Strategy is split between economically sensitive user pays infrastructure (56%) and regulated and contracted utilities (42%).

For the **Global Infrastructure Emerging Markets Strategy**, the primary quantitative tool in portfolio construction is Excess Return, on which our stock-ranking system is based.

Monthly Stock Highlight

This month we review Indian electric utility Power Grid Corporation of India (PG).

PG is India's principal electric power transmission company. It has a share of more than 90% of India's interstate and inter-regional electric power transmission system.

PG is a monopoly transmission utility that primarily owns and operates the inter-regional transmission lines in India. PG's assets are regulated, which provides cash flow stability.

India plans to invest USD\$36 billion in the transmission sector over the next five years. PG would account for more than 50% of this investment. In addition to the regulated interstate capital expenditure, PG will also invest in intrastate projects, the green energy corridor and competitive bid projects that we believe will give it consistent regulated returns.

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