Value Strategy

MONTHLY COMMENTARY | MAY 2021

Our global listed infrastructure strategy performed within the range of infrastructure indices, which marginally underperformed equities for the month.

Economic activity continued to rebound strongly during the month with ongoing and significant upgrades to consensus earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, although mobility restrictions remained significant and even increased in many regions as a third wave of infections continued at elevated levels. U.S. mobility restrictions proved the exception, easing as vaccine penetration increased.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates stabilised, with real bonds declining and the continued view that the inflation spike is largely transitory, albeit risk is to the upside. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of higher inflation; however, significant slack in labour markets is expected to contain inflation risk. Markets performed solidly on the back of the strong economic data.

Portfolio Performance

On a regional basis, Western Europe was the top contributor to monthly performance (+0.61%), of which U.K. electric utility SSE (+0.16%) and Spanish communications company Cellnex Telecom (+0.15%) were the lead performers.

SSE is a diversified energy utility headquartered in Scotland. It is vertically integrated, operating over the entire supply chain in the U.K., with generation (including hydro, wind, CCGT and coal-fired), electricity and gas networks, and retail businesses. It is the U.K.'s largest renewable energy generator. Shares performed in line with the U.K. utility sector, which did well along with rising inflation. The company also announced a solid set of FY21 results, meeting market expectations.

Cellnex Telecom is Europe's leading independent infrastructure owner and operator of wireless telecommunication. Shares were up as the tower operator continued to accrue tower acquisitions at attractive valuations in anticipation of a quickening rollout of 5G.

Elsewhere in the region, French airport operator Aeroports de Paris (+0.09%) also performed well.

Aeroports de Paris owns and operates three airports in Paris, including Charles de Gaulle, Orly and Le Bourget, as well as minority stakes in several global airport groups, including TAV in Turkey and Schiphol in Holland. Shares responded well to the removal of some travel restrictions in Europe.

Turning to North America, U.S. energy infrastructure company Cheniere also performed strongly, contributing +0.38% to monthly performance.

Cheniere Energy owns and operates U.S. liquefied natural gas (LNG) export facilities. Cheniere performed in line with the U.S. pipeline sector, which rose as the current energy market remains constructive.

U.S. electric utility NextEra Energy (-0.16%) was the largest detractor from monthly performance.

NextEra Energy is an integrated utility business with a regulated utility operating in Florida and the largest wind business in the U.S. Its regulated business includes Florida Power & Light, which serves 9 million people in the State of Florida. Market weakness in long-term growth sectors like renewables weighed on shares.

All returns are in local currency.

Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (55%) and consists of exposure to regulated and contracted utilities (32%) and economically sensitive user pays infrastructure (23%).

For the **Global Infrastructure Value Strategy**, the primary quantitative tool in portfolio construction is excess return, on which our stock-ranking system is based. As such, driven by valuation, the Investment Committee initiated positions in U.S. electric utility CenterPoint Energy and Canadian rail operator Canadian National Railway.

The strategy also used the opportunity to crystallise some gains by exiting U.S. renewables utility NextEra Energy Partners.

Monthly Stock Highlight

This month we review French toll road operator Vinci.

Vinci operates half of France's toll road network under long-term concession agreements, a growing portfolio of airport concessions and a global contracting business.

75% of Vinci's earnings are derived from high-quality road and airport concessions.

We believe Vinci's core French toll road assets underpin solid free cash flow generation, which, coupled with Vinci's A-rated balance sheet, provides the option to either continue pursuit of acquisitions to enhance and diversify the earnings base or, at some point, initiate capital management through either special dividends, buybacks or a higher payout.

Nick Langley, Shane Hurst and Charles Hamieh
Investment Committee Members