

Emerging Markets 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, Asia Pacific was the top contributor to monthly performance (+1.99%), of which Indian rail operator Container Corporation of India (+0.74%) and Chinese gas utility ENN Energy (+0.50%) were the lead performers.

Container Corporation of India is India's largest container train operator, with 75% market share. Shares rallied with the resolution of land license issues with the Railways Ministry, and the market's focus now remains on privatisation.

ENN Energy is one of the major listed gas distribution utilities in China with a nationwide portfolio of last-mile city gas concessions and the longest operating track record among the listed players. ENN Energy was up after the company's announcement of strong ESG targets as well as robust gas sales volume growth year-to-date, implying upside to the full-year guidance.

Turning to Latin America, Brazilian electric utility Neoenergia (+0.58%) and Brazilian toll road operator CCR (+0.50%) also performed well during the month.

Neoenergia is Brazil's second-largest integrated utility company, operating across the electricity distribution, generation and transmission segments. Neoenergia's ultimate parent company is the Spanish multinational utility Iberdrola. The stock performed well during the month following another quarter of steady volumes, coupled with controlled costs and losses. Additionally, the market was pleased with Neoenergia focusing on execution rather than pursuing further M&A.

CCR is Brazil's largest public infrastructure concession holder, operating concessions across motorways, urban mobility (sea ferries, subways, light rail) and airports. CCR performed well following a string of successful new auction wins across the airport, toll road and urban mobility sectors.

Airport operator Malaysia Airports (-0.24%) was the largest detractor from monthly performance.

Malaysia Airports is one of the world's largest airport operators by passenger numbers. Based in Kuala Lumpur, it operates all but one airport in Malaysia and also has a 100% stake in Istanbul's Sabiha Gokcen airport. The share price of Malaysia Airports fell as Malaysia re-instated lockdowns and limited domestic travel in facing a new wave of COVID-19 infections.

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 (29%), with the remainder in cash. At the sector level, the Strategy is split between economically sensitive user pays infrastructure (61%) and regulated and contracted utilities (36%).

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 Philippines-based port operator International Container Terminal Services (ICTS).

ICTS operates terminals through long-term concession agreements with local port authorities and governments.

ICTS has terminals primarily in emerging markets with a primary focus on origin & destination (O&D) cargo. O&D cargoes have higher pricing power when compared to transshipment cargoes, so ICTS mainly focuses on maximising the cargo yield as opposed to volumes.

About 51% of total volumes are from Asia, 32% from the Americas and 17% from Europe, the Middle East and Africa (EMEA). Even though ICTS is a proxy for EM trade, it has limited exposure to commodities, China, U.S.-China trade war, or other political risks. The aggregate port utilisation is also only about 56% and we see ample room for utilisation to increase across its ports.

Nick Langley, Shane Hurst, Charles Hamieh and David Pow Investment Committee Members



Nick Langley



Shane Hurst



Charles Hamieh



David Pow

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