# Value Strategy

MONTHLY COMMENTARY | FEBRUARY 2021

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.

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 sector basis, Western European toll roads (+1.10%) were the top contributors to monthly performance, of which Atlantia (+0.50%) and Vinci (+0.48%) were the lead performers.

Atlantia is an Italian diversified infrastructure company, operating both toll road and airport concessions.

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.

With the global COVID-19 vaccination program making progress, the investment community is becoming increasingly confident on the eventual reopening of the economy. Against this backdrop, sectors that are leveraged to the recovery — such as transport and energy — continue to perform well.

Turning to North America, U.S. energy infrastructure company Cheniere Energy (+0.26%) and U.S. rail operator Union Pacific (+0.21%) also performed well.

Cheniere Energy (LNG) is an energy infrastructure company that owns and operates U.S. liquefied natural gas export facilities. Shares were up due to an improving energy outlook and strong fourth-quarter earnings results for Cheniere that were better than consensus estimates.

Union Pacific (UNP) is the largest listed railroad company in North America. Despite impacts from the polar vortex, UNP was the beneficiary of the market shift into beta stocks leveraged to the impending government stimulus and expectation of recovery in the U.S.

Canadian renewables utility Brookfield Renewable Partners (-0.51%) was the largest detractor from monthly performance.

Brookfield Renewable Partners (BEP) is a pure-play renewables operator and developer headquartered in Canada, focused on international hydro, solar, wind and storage technology. As more private and public institutions announce ambitious carbon reduction initiatives, Brookfield Renewable's globally diversified, multi-technology renewables business makes it an attractive partner. BEP's development pipeline stands at 18,000 MWs and provides confidence the company can meet its targeted double-digit cashflow growth through to 2025. Shares retreated amidst a cool-off in renewables stocks and the unwinding of the C-Corp premium to LP units.

All returns are in local currency.

## Positioning and Outlook

On a regional level, the Strategy's largest exposure is in the U.S. & Canada (50%) and consists of exposure to regulated and contracted utilities (30%) and economically sensitive user pays infrastructure (20%).

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 French roll road operator Eiffage and Japanese rail operator East Japan Railway.

The fund exited U.S. electric utility Edison International as part of funding the above purchases.

## Monthly Stock Highlight

This month we review Spanish airport operator Aena.

Aena is the monopoly owner of the Spanish airport system, operating the 46 airports under a dual-till regulatory regime. Aena also manages London Luton Airport, with a 51% stake.

Aena represents an attractive investment opportunity providing exposure to the entire Spanish airport system under a dual-till regulatory regime with pricing certainty to 2021. The system represents high-quality infrastructure assets and the airports benefit from Spain being a significant European tourist destination. Dual-till regulation allows for excess returns in the unregulated non-aeronautical operations and provides stable regulated pricing as well as upside in non-aeronautical activities such as airport terminal retail.

Aena generates strong free cash flow given its strong passenger growth and capex below depreciation; this is enabling it to continue deleveraging the business and offer a dividend yield above European airport peers.

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