

# Emerging Markets Strategy

MONTHLY COMMENTARY | JULY 2021



Our global listed infrastructure strategy outperformed infrastructure indices, which generally performed in line with equities for the month.

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

Despite another wave of infections due largely to COVID-19 variant strains, the effectiveness of vaccines in preventing hospitalisations has allowed mobility restrictions to begin to ease globally. Countries with lower vaccination rates, however, have continued to struggle.

Government policy remained supportive, continuing to implement previously announced stimulus. Bond rates stabilised, with real bonds declining, while the view that the inflation spike is largely transitory continued, albeit with risk 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 strong economic data, with the exception of the Chinese market which was hurt by regulatory crackdown across several sectors.

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## Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to monthly performance (+0.23%), of which Chinese gas utility ENN Energy (+0.49%), Indonesian toll road operator Jasa Marga (+0.47%) and Chinese renewables utility Xinyi Energy (+0.26%) were the lead performers.

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. Shares rose on the back of resilient gas sales volume momentum and positive sentiment in the Chinese clean energy-related sectors.

Jasa Marga (JSMR) is Indonesia's largest toll road operator. The majority of its roads are located in Greater Jakarta, a very highly populated area which provides the basis for high traffic volume on JSMR's toll roads. After the company reported a strong 1H result, the market also looked beyond the mobility restrictions in Jakarta, driving shares to recover sharply.

Xinyi Energy (XYE) was spun off in 2019 from Xinyi Solar, a solar glass manufacturer, and is a solar farm operator in China. It acquires solar projects from the parent based on a formula and bears no construction risks. The projects are mainly in the Anhui, Hubei and Tianjin provinces. On the back of a positive profit alert announcement for the first half, and fund flows into the Chinese renewable sector, XYE's shares climbed significantly.

Turning to Latin America, Mexican airport operator Grupo Aeroportuario del Pacífico (+0.22%) also performed strongly.

Grupo Aeroportuario del Pacífico SAB de CV (GAPB) is Mexico's largest airport operator with a portfolio of 13 airports focused on Mexico's Pacific region with an additional airport in Jamaica. GAPB performed well during July following strong quarterly results underpinned by an encouraging recovery in passenger traffic. GAPB's passenger levels reached 92% of pre-COVID levels, which is one of the highest amongst global airport peers.

Indian rail operator Container Corporation of India (-0.41%) was the largest detractor from monthly performance.

Container Corporation of India is India's largest container train operator, with 75% market share. Shares fell with general weakness across Indian beta names.

All returns are in local currency.



## Positioning and Outlook

This Strategy is invested in high-quality companies benefitting 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 (69%) 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 (37%).

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 energy infrastructure company Gujarat Gas.

Gujarat Gas (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.

All the company's existing revenues are under a fully regulated model where GUJGA has exclusive rights to be the monopolistic distributor of gas in Gujarat. Growth through acquiring gas distribution rights for new regions is awarded based on competitive bidding.

GUJGA is a premier city gas distribution company in Gujarat, benefitting from secular tailwinds around increased gas consumption (across vehicles, industrial usage, heating and cooking fuel).

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