Emerging Markets Strategy

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Our global listed infrastructure strategy outperformed the range of infrastructure indices as well as global equities for the quarter.

Economic activity continued to rebound amidst strong consensus expectations for corporate earnings and economic growth forecasts.

COVID-19 vaccine rollouts gained pace in many regions, helping ease mobility restrictions despite the new Delta variant causing an increase in confirmed cases.

Government policy remained supportive, with continued implementation of previously announced stimulus. Bond rates remained range bound to September following the September FOMC meeting; the Fed continues with the view that the recent inflation spike is largely transitory, with upside risk able to be addressed through possible tapering later in the year. Strong labour and wage data, combined with large increases in commodity prices, highlight the risk of inflation to the upside in the near term. However, significant slack in the labour markets is expected to contain inflation risk. Despite strong economic data, markets remained flat due to fears that supply chain bottlenecks and sharper than expected commodity price increases, along with the liquidity crisis of Chinese property developer Evergrande, and power rationing in China, would be headwinds to the recovery.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to quarterly performance (+2.58%), of which Philippines-based port operator International Container Terminal Services (+1.02%), Chinese renewables utility China Longyuan Power Group (+0.75%) and Chinese port operator Shanghai International Port Group (+0.58%) were the lead performers.

International Container Terminal Services is a Philippines-based port operator that operates terminals through long-term concession agreements with local port authorities and governments. Shares were higher due to first-half results significantly beating market expectations, while throughput growth momentum is expected to continue for coming quarters given global trade flows benefiting from the post-COVID-19 recovery.

China Longyuan Power is the largest wind farm operator in China, and one of the largest in the world, with over 23GW of consolidated operational capacity. The stock fared well on back of a first-half results beat and approval of its A-share listing, which should lead to sizable asset injection. The sector also attracted more interest after the commencement of carbon trading and China's strengthened commitment to decarbonisation.

Shanghai International Port Group (SIPG) is the sole operator of the port of Shanghai, the largest port in terms of 20-foot container equivalent units (TEU) handled in the world since 2011. Aside from container and bulk cargo handling, SIPG operates port-related logistics and port services, and has other minority investments such as financials. Shares rose due to strong first-half results reported above the preliminary release and SIPG's leverage to global post-COVID-19 economic recovery.

Elsewhere in the region, Indian electric utility Power Grid (+0.56%) also performed well during the quarter.

Power Grid 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. The stock moved higher amidst strong prospects of increasing Indian power demand.

Chinese gas utility ENN Energy (-0.60%) was the largest detractor from quarterly performance.

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 delivered first-half results that were in line while the market expected a beat. Shares also got hit by weak sentiment in the property sector triggered from the Evergrande debt crisis in September and concern over gas consumption growth from power curbs.

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 (70%) and Latin America (27%), with the remainder in cash. At the sector level, the Strategy is split between economically sensitive user pays infrastructure (60%) 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. As such, driven by valuation, the Investment Committee initiated positions in Chinese electric utility China Resources Power Holdings and Indian electric utility National Thermal Power Corporation.

The strategy also used the opportunity to crystallise some gains by exiting Indian energy infrastructure companies Petronet LNG and Mahanagar Gas, and Chinese airport operator Shanghai International Airport.

Quarterly Stock Highlight

This quarter we review Malaysian airport operator Malaysia Airports.

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.

Malaysia Airports currently operates a dual-till revenue model whereby aeronautical charges are regulated and non-aeronautical revenue streams, such as airport retail rentals and duty-free outlets, are unregulated.

The key catalyst for this stock is the company's move to a regulated asset base framework, which should translate into more clarity around capex spending and earnings visibility. Over the long term, we also expect to see recovery in Malaysia Airports' average airport traffic growth to historical norms of 5%–6% p.a. Further, we expect Malaysia Airports to start monetising its land bank adjacent to the airport with retail and commercial ventures.

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