

Emerging Markets Strategy

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Our global listed infrastructure strategies underperformed infrastructure benchmarks and global equities for the quarter.

The outlook for interest rates and inflation continues to cause volatility in markets as investors digest expectations of a global slowdown in growth in conjunction with central bank tightening, with elevated volatility in the U.K. and Europe as a result of sustained high energy prices.

Inflation continues to sustain itself at a higher level for longer, making it difficult for central banks to refrain from loosening policy even as the economic outlook deteriorates. Although maintaining a tightening position is common across most economies, varying economic circumstances may lead monetary policies to diverge in the extent of tightening. As a recession continues to be part of consensus expectations, the duration and depth of the recession remains the largest risk to investors.

In emerging markets, the long-awaited results of Brazil's general election, with new president Lula, along with China's relation of COVID restrictions and signs of property easing, were key developments in the quarter.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to quarterly performance (+2.96%), of which Philippines-based port operator International Container Terminal Services (+0.87%) and Malaysian airport operator Malaysia Airports (+0.71%) were the lead performers.

International Container Terminal Services operates terminals through long-term concession agreements with local port authorities and governments. Shares benefited from stronger-than-expected third-quarter results reported, underpinned by solid volume growth.

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. Asia's reopening and increased passenger volumes were positive drivers for Malaysia Airports' share price.

Turning to Latin America, Mexican toll road operator Aleatica (+1.21%) and Mexican airport operator Grupo Aeroportuario del Centro Oeste (+0.55%) also performed well during the quarter.

Aleatica is a Mexican toll road company that currently owns a stake in eight concessions across Mexico City, Mexico. Aleatica is currently subject to a takeover offer from IFM that has caused a significant rally in their share price in anticipation of a potential deal.

Grupo Aeroportuario del Centro Oeste (OMAB) operates 13 airports located around the central and northern states of Mexico. Of Mexico's three airport groups, OMAB is generally more focused on domestic/business travel as opposed to tourists. OMAB performed well following their quarterly results, which remained impressive on the back of continued passenger growth. Passenger growth continues to be resilient, trending at ~5%+ above pre-COVID levels.

Brazilian toll road operator CCR (-0.50%) was the largest detractor from quarterly performance.

CCR is Brazil's largest public infrastructure concession holder, operating concessions across motorways, urban mobility (sea ferries, subways, light rail) and airports. CCR's share price fell after president-elect Lula announced his intentions to raise the fiscal spending cap, consequently pressuring inflation and delaying expected interest rate cuts.

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 majority of the strategy is split between Asia Pacific EM (52%) and Latin America (45%). At the sector level, the strategy is split between economically sensitive user-pays infrastructure (55%) and regulated and contracted utilities (43%).

For the **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 Indian energy infrastructure company Mahanagar Gas and Brazilian rail operator Rumo Logistica.

The strategy also used the opportunity to crystallise some gains by exiting Indian communications company Bharti Infratel and Hong Kong water company Guangdong Investment.

Quarterly Stock Highlight

This quarter we review Mexican airport operator Grupo Aeroportuario del Sureste SA de CV (ASURB).

ASURB is the third-largest airport operator in Mexico, operating nine airports in the Southeast of Mexico along with smaller concessions in Puerto Rico and Colombia.

ASURB's airport concessions are regulated via a dual-till system under long-term contracts.

The company owns lengthy concessions to operate some of the most lucrative airports in Mexico (Cancun) and expects to see continued growth in its Mexican operations, supplemented by a recovery in volumes across its Puerto Rico/Colombian investments following a string of natural disasters.

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