Emerging Markets Strategy

MONTHLY COMMENTARY | MAY 2022

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

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 that has been more hawkish than investors initially expected.

Inflation remains a large risk to economic growth as increasing energy and other costs of living expenses put pressure on the average consumer. The probability of a recession is increasing, although we still do not consider a recession the base case.

Portfolio Performance

On a regional basis, Asia Pacific was the top contributor to monthly performance (+1.69%), of which Indian energy infrastructure company Indraprastha Gas (+0.34%), Chinese gas utility China Resources Gas (+0.32%) and Chinese renewables utility China Longyuan Power (+0.25%) were the lead performers.

Indraprastha Gas Limited (IGL) is a city gas distribution business. It is one of India's leading natural gas distribution companies, processing and distributing compressed natural gas and liquified petroleum gas to transport, domestic, commercial and industrial consumers. Share prices rose as the company managed the higher gas price environment better than peers.

China Resources Gas is a gas distribution utility in China, with the core business being downstream last-mile city gas distribution through its over 250 projects across the country. It is substantially owned by China Resources (Holdings), one of the largest SOE conglomerates in China. Shares recovered along with Chinese gas utility sector on eased market concerns over retail sales margin as pass-through had been approved at most of its projects.

China Longyuan Power is the largest wind farm operator in China with over 23GW consolidated operational capacity, also being one of the largest in the world. China Longyuan Power performed well on the back of China announcing more supportive policy details for the 14th Five Year Plan development of renewables and net-zero target.

Turning to Latin America, Brazilian toll road operator CCR (+0.30%) also performed well during the month.

CCR is Brazil’s largest public infrastructure concession holder, operating concessions across motorways, urban mobility (sea ferries, subways, light rail) and airports. CCR reported strong quarterly results in May with adjusted EBITDA growing 23% on the back of recovering volumes across all their segments. The market expects growth momentum to sustain for the rest of 2022, leading to CCR’s stronger performance in May.

Malaysian airport operator Malaysia Airports (-0.23%) 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 with concerns around capacity issues, along with an economic slowdown impacting air travel.

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 (57%) and Latin America (40%). At the sector level, the strategy is split between economically sensitive user-pays infrastructure (57%) and regulated and contracted utilities (41%).

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 a position in Indonesian gas utility Perusahaan Gas Negara.

Monthly Stock Highlight

This month we review Chinese gas utility ENN Energy.

ENN Energy is a major listed gas distribution utility in China with a nationwide portfolio of last-mile city gas concessions and the longest operating track record amongst the listed players.

ENN Energy's 235 city gas projects nationwide are mostly 30-year exclusive concessions with cost pass-through to customers for gas sales. It owns and operates the city gas distribution pipelines, gas terminals, storage and CNG/LNG refilling stations. The company takes no gas price risk and only limited gas supply risk.

We expect gas consumption growth in China to remain above GDP growth due to the government's determination to resolve air pollution and promote gas as a substitute for coal. With the longest track record amongst the listed peers, ENN Energy is well-positioned to deliver sales volume and earnings growth above industry average. It has a 2050 net-zero carbon emission roadmap. Within city gas, ENN Energy focuses on gas sales to commercial/industrial users, which has more lucrative returns than sales to residential users. It has started to grow its new businesses — integrated energy and value-added products and services — as earnings drivers, alongside a prudent expansion into rural coal-to-gas conversion.

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