Emerging Markets Strategy

MONTHLY COMMENTARY | OCTOBER 2021

Our global listed infrastructure strategies performed in line or better than a range of infrastructure benchmarks, which underperformed global equities for the month.

Macroeconomic factors continued largely in the same vein as in previous months, with the markets focused on supply chain disruptions and the sustained high level of inflation, including high energy prices.

Economic activity continued to rebound, albeit slightly below expectations, largely as a result of supply chain disruptions. Inflation remained high and, combined with high energy prices and strong wage and labour data, increased the markets' expectation that interest rate increases will be brought forward.

Mobility restrictions continued easing as COVID-19 vaccine rollouts carried on strongly in many regions and as some regions such as Asia Pacific moved away from a zero-COVID-19 strategy.

Ongoing COVID-19 disruption, supply chain issues and high inflation have the potential to delay the full economic recovery; however, markets are not signalling increased odds of a recession, despite yield curves flattening.

EM markets faced downward pressure from political uncertainties in Latin America, coupled with economic slowdown concerns in China which was driven by new COVID outbreaks, property slowdown, and power rationing.

Portfolio Performance

On a stock-specific basis, Indonesian toll road operator Jasa Marga (+0.36%) was the top contributor to monthly performance.

Jasa Marga 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 Jasa Marga's toll roads. The share price of Jasa Marga rallied due to the accelerated vaccination and mobility recovery in Indonesia, such that Jasa Marga's traffic revenue has reached above pre-COVID-19 levels since September.

Turning to Latin America, Mexican airport operator Grupo Aeroportuario del Pacífico (+0.25%) and Mexican communications company Telesites (+0.19%) also performed well during October.

Grupo Aeroportuario del Pacífico SAB de CV (GAP) is Mexico's largest airport operator with a portfolio of 13 airports focused in Mexico's Pacific region with an additional airport in Jamaica. GAP performed well in October after delivering strong third-quarter figures that saw revenues in Mexico exceed pre-pandemic levels, a feat that would be hard to replicate by any other non-Mexican airport.

Telesites is a Mexican communications company with communication towers distributed across Mexico. Telesites performed well in October as they delivered a slight beat on their third-quarter earnings. Along with this, investors are still awaiting the further possibility of ceding further towers into a FIBRA (similar to a REIT), which would yield tax benefits.

Chinese gas utility China Gas Holdings (-0.52%) was the largest detractor from monthly performance.

China Gas Holdings (CGH) is the largest gas distribution utility in China with a portfolio of last-mile city gas concessions. As the most ambitious early mover to tap into rural coal-to-gas opportunities, CGH is well-positioned to achieve stronger-than-peer volume and earnings growth. The share price of CGH fell with concerns rising from the impact of the property market slowdown on its residential connection fees, along with a suspected gas explosion in October at a project in which CGH holds a minority stake.

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 (70%) and Latin America (28%), with the remainder in cash. At the sector level, the Strategy is split between economically sensitive user pays infrastructure (54%) and regulated and contracted utilities (44%).

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 a position in African communications company IHS Holding.

The strategy also used the opportunity to crystallise some gains by exiting Indian energy infrastructure companies Petronet LNG and Mahanagar Gas.

Monthly Stock Highlight

This month we review 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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