

# Emerging Markets Strategy

MONTHLY COMMENTARY | JANUARY 2021



Our Global Listed Infrastructure funds performed broadly in line with infrastructure indices which underperformed general equities in January.

Market performance was muted, impacted by concerns of rising inflation, increasing COVID-19 cases, further mobility restrictions, COVID-19 mutations, and slow vaccine rollouts.

Markets became increasingly concerned with inflation and increases in bond rates as a result of significant stimulus and central bank policies, increasing discount rates and reducing valuations. COVID-19 cases continued to increase, reaching new highs in many geographies, resulting in further mobility restrictions and, combined with the slower than expected rollout of vaccines, dampening expectations for a speedy recovery from the pandemic.

The Democratic majority in the U.S. Senate, albeit thin, opened the door for a range of policies, notably Biden's proposal for a further \$1.9 trillion of stimulus (in addition to \$900 million from December) and significant climate-related policies, including recommitting to the Paris Agreement, which are expected to further accelerate renewables growth. A new wave of COVID-19 outbreaks across many cities in China have prompted harsh lockdowns and triggered renewed concerns of slowdown.

---

## Portfolio Performance

On a stock specific basis, Indian rail operator Container Corporation of India was the top contributor to monthly performance (+0.28%).

Container Corporation of India (CONCOR) is India's largest container train operator, with 75% market share. India's budget reaffirms its plans to divest CONCOR, helping the stock. The company is also coming closer to the commissioning of the dedicated freight corridor.

Elsewhere in the Asia Pacific region, Chinese gas utility ENN Energy (+0.20%) also performed well.

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's parent company announced a share incentive plan for the board and management, which helped the sentiment and share price of the parent as well as ENN Energy itself.

Turning to Latin America, Brazilian electric utility Neoenergia (+0.12%) performed well during the month.

Neoenergia (Neo) is Brazil's second-largest integrated utility company, operating across the electricity distribution, generation and transmission segments. Neo's ultimate parent company is the Spanish multinational utility Iberdrola. After winning the auction for the distribution company CEB at what was perceived to be an expensive valuation, Neo did a good job at addressing the market's concerns by hosting calls to address this topic and speaking at various investor conferences. This helped investors gain comfort with Neo's ability to improve the asset and extract synergies.

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-peers' volume and earnings growth. Shares were lower as investors took profits after a sharp share price rally in December.

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 (65%) and Latin America (32%), with the remainder in cash. At the sector level, the Strategy is split between economically sensitive user pays infrastructure (56%) and regulated and contracted utilities (42%).

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 renewables utility Xinyi Energy Holdings Limited.

## Monthly Stock Highlight

This month we review Shanghai International Airport.

Shanghai International Airport (SHIA) is the operator of Shanghai Pudong International Airport, the major airport of Shanghai and the second largest in China in terms of traffic. At present, SHIA's asset base consists of two terminals (T1/T2) and two new satellite terminals (S1/S2), four runways, and facilities for serving passengers and handling cargo.

SHIA's aeronautical revenues are regulated while non-aeronautical revenues are largely unregulated. Aeronautical revenue is made up of two components: aircraft movement fee and passenger charges.

We believe SHIA will be able to deliver a robust earnings turnaround over the next few years, mainly driven by post-COVID traffic recovery. This in turn will be underpinned by growing duty-free retail sales, in line with international passenger growth under the contract with the operator until 2025, which provides a downside cushion even if international traffic remains weak. There is an upside in earning potential from revenue sharing in in-town and online DFS sales. Completion of the satellite terminals – which doubled SHIA's retail space – in 2019 has been below budget. Its robust balance sheet with net cash position enhanced its ability to weather through crises such as COVID-19.

SHIA is a major gateway airport in China. With about half of its passengers in 2019 being international – the highest among Chinese airports – it is well-positioned to benefit from the rise of the middle class and penetration of outbound travel in China, and in turn duty-free sales, which is the major driver of non-aero revenue, once mobility and border restrictions are relaxed.

### Nick Langley, Shane Hurst, Charles Hamieh and David Pow Investment Committee Members



Nick Langley



Shane Hurst



Charles Hamieh



David Pow

---

### Important Information

This material has been prepared for investment professionals, qualified investors and investment advisors only. This material presents information in a manner which is not suitable for retail investors and ClearBridge Investments Limited does not authorise the provision of this material to retail investors.

While the information contained in this document has been prepared with all reasonable care, ClearBridge Investments Limited and its related companies ("ClearBridge") accept no responsibility or liability for any errors, omissions or misstatements however caused. Any views expressed in this material are given as of the date of publication and such views are subject to change at any time.

This information is not personal advice. It has been prepared without taking account of individual objectives, financial situations or needs. Where an investment product is mentioned, potential investors should seek independent advice as to the suitability of the product to their investment needs. Reference to shares in a particular company, is not a recommendation to buy, sell or hold that stock. Investors should be aware that past performance is not indicative of future performance.

This information may contain forecasts, including in regard to targets, expected returns, PE ratios and dividend yields. Any such statements are based upon research undertaken by the ClearBridge investment team. This research incorporates ClearBridge's reasonable assumptions and beliefs concerning future developments and their potential effect but are subject to risks and uncertainties that may be beyond ClearBridge's control. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Accordingly, ClearBridge does not provide any assurance or guarantee that future developments will be aligned with ClearBridge's expectations, and actual results may differ materially from those expected by ClearBridge at the time of writing.

The distribution of this document may be restricted in your jurisdiction. This document does not constitute an offer or solicitation in any jurisdiction in which to make such an offer or solicitation would be unlawful. It is your responsibility to ensure that any such product, security, service or investment outlined is available in your jurisdiction.

Issued and approved outside Canada and the United States of America by ClearBridge Investments Limited (“CIL”), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ABN 84 119 339 052; AFSL 307 727).

In Canada and the United States of America, issued and approved by ClearBridge RARE Infrastructure (North America) Pty Ltd (“CBI RINA”), registered office Level 13, 35 Clarence Street, Sydney, NSW 2000, Australia (ACN 138 069 191). Neither CIL nor CBI RINA are registered as a dealer in any province in Canada. CIL and CBI RINA are not offering the securities of any investment fund that may be described in the materials in Canada or the United States. This material has not been approved or verified by the SEC or the OSC.

ClearBridge is wholly, indirectly owned by Franklin Resources, Inc., and part of ClearBridge Investments, LLC.

