First Sentier Global Listed Infrastructure B Inc GBP

November 2021
Investment Research

Opinion

Square Mile rating: AA

Exclusion | Sustainable | Responsible Practices | Impact

FE fundinfo crown rating

Performance

3 years annualised returns: **6.57%**

% of time met performance objective over 7 years: **100.0%**

Risks

Risk of asset class: 7 (scale 1–10)

Risk of fund within asset class: 3 (scale 1–5)

SRRI: **6**

-22.15% 3 years max drawdown

Costs

Ongoing charges: **0.80%**

Transaction costs: **0.33%**

Total cost of investment: **1.13%**

ESG

Company: 3 (scale 0–3)

Fund: 2 (scale 0–3)

Overview

The fund aims to provide income and capital growth. In practice, the managers seek to deliver a combination of inflation-protected income with capital growth over an investment cycle, through a globally diversified portfolio of high quality listed infrastructure securities that are primarily listed on developed markets.

They invest with an absolute return mind-set, although, as a long-only fund, it will be sensitive to shorter-term market fluctuations, and therefore capital growth is not guaranteed.

The managers aim to generate an income of around 3% to 5% p.a., which, when combined with the growth of capital, should deliver a total return of 8-10% p.a. over a full investment cycle, though again, this is not guaranteed.

Nonetheless, we believe that the fund is relevant for a number of investor outcomes, offering the potential for capital accumulation over the long term, income which should grow in real terms over time and protection from inflation, again over the long term.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	●

Square Mile Expected Outcome

We believe a total return of around 8-10% p.a. over a full investment cycle, which we would consider to be at least 5 to 7 years in length, is a reasonable return expectation for this fund.

Active/Passive: Active	**Domicile:** United Kingdom
Asset Class: Equity	**IA Sector:** IA Infrastructure
Launch Date: 08/10/2007	**Fund Size (as at 31 Oct 2021):** £1568.0m
Yield: 2.58%	**Distribution Pay Date:** Feb 01, Aug 01 (Final)
Fund Manager: Andrew Greenup, Peter Meany	**Ongoing Charge Figure:** 0.80%

Fund Opinion

This fund offers access to a specialist area of the global equity market that can meet a range of investor needs. As an equity strategy, the fund should provide capital growth over the long term. However, the team also have a considerable focus on preserving capital and, when combined with the natural defensiveness of this asset class, we would expect the fund to deliver a less volatile return profile when compared to the broader equity market. The asset class is also well known for its income qualities and as such, the fund is structured to provide an attractive level of distributions and growth in distributions for investors. Finally, as many infrastructure firms are able to raise prices in line with inflation, a large number of companies can cope well in an inflationary environment; a factor that also helps the portfolio grow its income over time. This fund can therefore offer investors strong diversification benefits in portfolios whilst meeting a number of investor outcomes.

There are however two main risks to this asset class. The first is that it can face headwinds in a rising interest rate/ bond yield environment, with those areas or companies that have poor growth potential and high levels of debt the most vulnerable. Secondly, the impact of political or regulatory decision making can be meaningful. Nevertheless, whilst investor sentiment may of course be less discerning at times, we have faith that the investment team's abilities, process and focus on quality can help mitigate some of these risks.

We like that the management of this fund are an experienced, focused and driven investment team, clearly able to articulate their objectives, which the fund has fairly consistently achieved. Furthermore, First Sentier Investors has proven to be a supportive and successful environment in which to build world-class investment teams and funds.

Fund Description

First Sentier Investors is a global investment management business with over $180 billion assets under management across a range of asset classes. They employ over 200 investment professionals, across multiple investment teams located around the world. The business was acquired by Mistubishi UFJ Trust and Banking Corporation in August 2019 from the Commonwealth Bank of Australia.

The investment team is based in Sydney, Australia and is led by Peter Meany. He and Andrew Greenup, Deputy Head of Global Infrastructure Securities and Senior Portfolio Manager, established the fund, investment philosophy and process in 2007. Since then, they have steadily built the team to ten investment professionals as the franchise has grown. Stock coverage is split by sector to maximise the team's specialist knowledge, although all members of the team are actively involved in contributing and challenging ideas and opinions. Mr Meany and Mr Greenup have developed a strong culture of a level-headed, down to earth and collegiate approach by blending a group of individuals with diverse but relevant experience.

The team's investment philosophy has three central tenets. The first of these is to preserve capital, in recognition that this is critical in achieving long-term capital growth. The team focuses on the fundamental value of each company in order to understand what price to pay to invest and to minimise downside risk once invested. Secondly, they look to invest in quality companies. They define these as real infrastructure assets with high barriers to entry, strong pricing power, sensible balance sheets and with a company management team that is aligned with shareholders. Furthermore, they look to ensure that firms have proper governance structures in place as well as appropriate cultures and regulation that will sustain their licences to operate. Thirdly, the team invest with a long-term mindset, which is crucial given the long-term nature of the asset class. Ultimately, they place great emphasis on proprietary research and direct contact with both companies and regulators in order to gain an in-depth understanding of a company, the industry in which it operates and the company's position within that industry.

The investment process follows a number of steps to ensure that relevant, investable and understandable companies are identified and analysed to provide a choice of stocks in which the fund may invest. These are drawn, in the vast majority of cases, from the transportation (road, airports and rail), utilities (electricity, gas, water and waste), energy (oil and gas pipelines and storage) and communications (towers and data centres) sectors. These will be largely based in developed markets for quality and corporate governance reasons. The fund can invest in emerging markets but there is an internal limit of 20%. The portfolio will comprise of a combination of 'best ideas', defined as those that rank highest on value and quality, where the team believes there are tangible reasons that the value will be realised, and 'strong buys', where there is a high value and quality ranking. The best ideas will typically earn a position of 4% or greater in the fund, whilst strong buys will result in holdings of between 2% and 4%. Other positions, of up to 2%, may be held where the value and quality rank is deemed relatively lower or where there are liquidity concerns. Overall the fund is likely to comprise of around 40-50 holdings.

Risk Summary

This fund invests in equities and as such the main risk is that these, as higher risk assets, can be volatile investments. The fund is also invested overseas, including in emerging markets, and therefore will be exposed to currency movements. Global equities may therefore be more suitable for investors with a longer time horizon.

The performance of infrastructure companies may be weaker in a rising interest rate/bond yield environment, with those areas or companies that have poor growth potential and high levels of debt the most vulnerable, though this could be offset in some instances if inflation is also rising. The impact of political or regulatory decision making can also be meaningful in the fund.

The fund can look and behave differently from the benchmark index. The portfolio is constructed on the merits of individual stocks in accordance with the investment process, however exposure at the stock, sector and regional levels is carefully monitored. In addition, the sensitivity to various macroeconomic and geopolitical scenarios are debated and understood as far as possible. The team also look to reduce risk by having a focus on higher quality infrastructure securities.

Value for Money

The fund's ongoing charge figure (OCF) is below that of a peer group of active global infrastructure funds. The transaction cost on the fund however are high. The combination of these two inputs results in the fund's total cost of investment (TCI) being elevated when compared to peers. In our opinion however the fund remains fairly priced, especially considering the depth of resources and expertise in the team.

Under MiFID II regulations, all firms are required to disclose all of the costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. This step is at the discretion of each fund group, but the majority of asset managers have decided to absorb these costs. First Sentier absorb all the costs associated with their research, which slightly reduces the overall fee paid by investors.

TCI v Peer Group

1.13%

OCF v Peer Group

0.80%

Transaction Costs v Peer Group

0.33%

ESG Integration

Company Assessment	0	1	2	3
ESG factors are fully integrated and are instrumental to the company's investment processes.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
☐	☐	☐	☐

Additional Information

Annualised Return	6.57%
Annualised Volatility	15.80%
Max Drawdown	-22.15%
Max Gain	10.87%
Max Loss	-15.90%
Sharpe Ratio	0.42
Sortino Ratio	0.37

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

220.7 pence

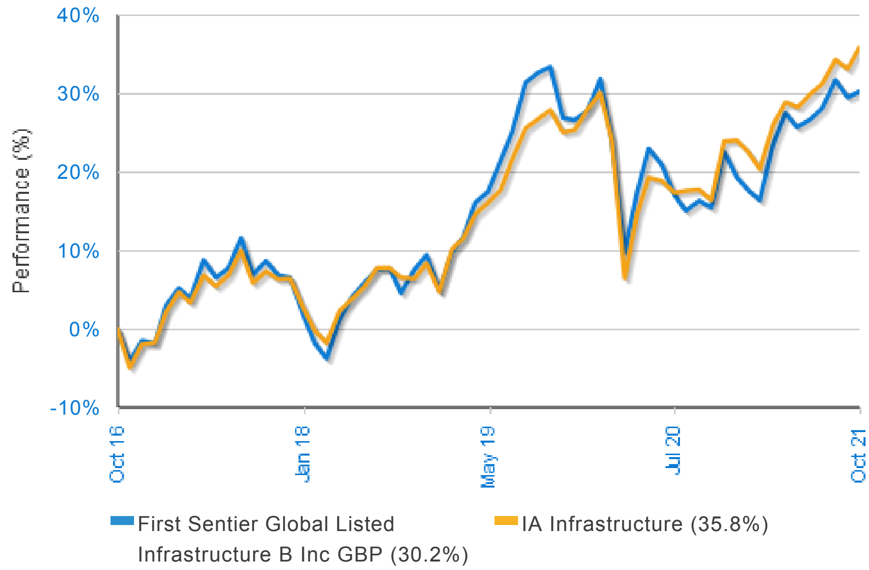
Benchmark

FTSE Global Core Infrastructure 50-50 Index

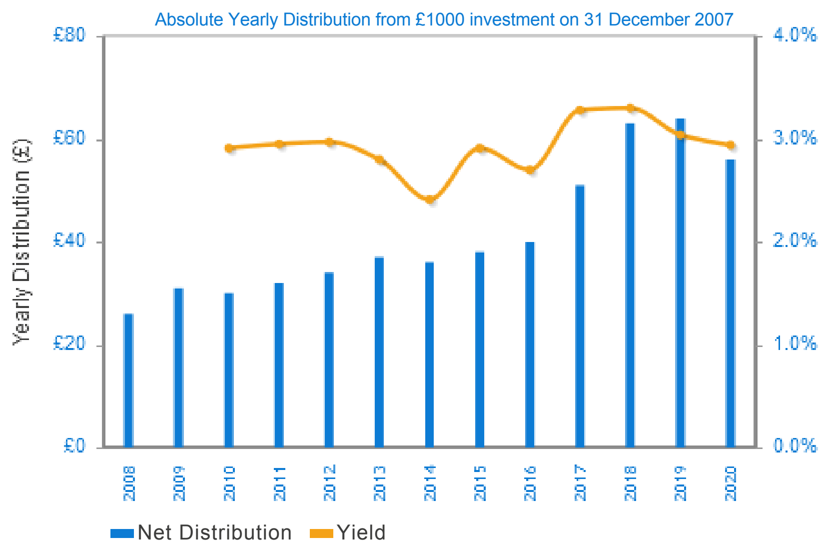
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	11.3	13.0	3
12-24m	-12.8	-7.9	4
24-36m	27.5	20.0	1
36-48m	-2.2	0.7	4
48-60m	10.6	8.8	1

Capital Growth

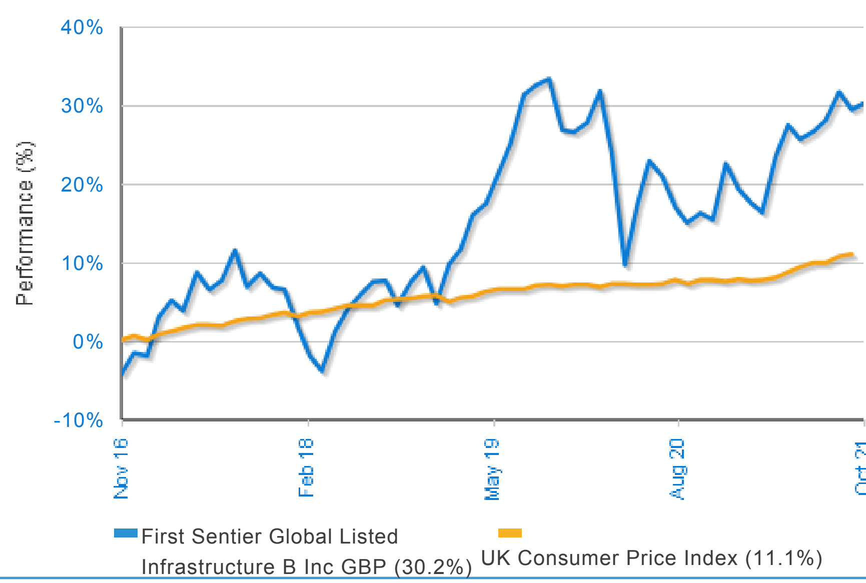


Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

Inflation Protection



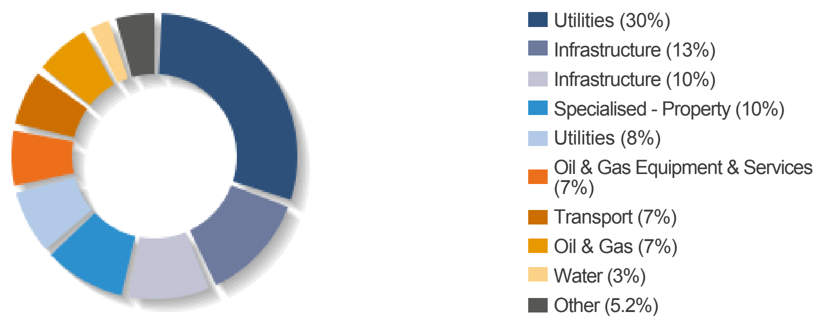
Top Ten Holdings

(Data as at 31 Oct 2021)

Company Name	%
TRANSURBAN GROUP	7.0
NEXTERA ENERGY INC	6.3
AMERICAN TOWER REIT	5.3
DOMINION ENERGY INC	5.1
AENA SME SA	3.8
SBA COMMUNICATIONS	3.4
NORFOLK SOUTHERN CORP	3.4
XCEL ENERGY INC	3.1
PEMBINA PIPELINE CORP	2.6
EMERA INC	2.6

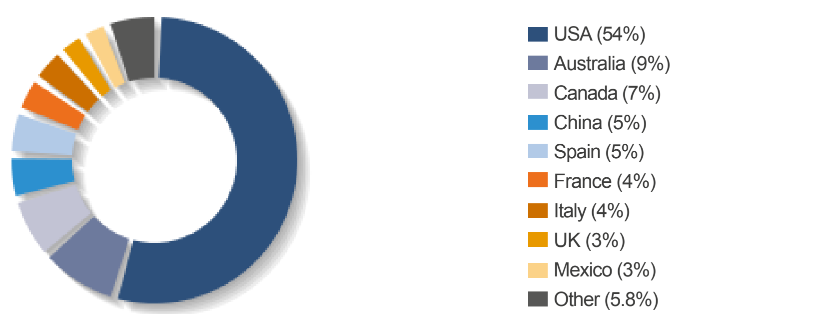
Sector Breakdown

(Data as at 31 Oct 2021)

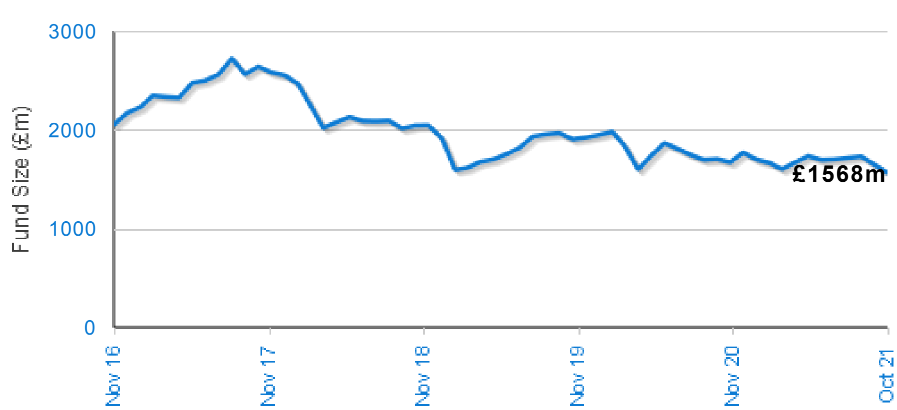


Geographic Breakdown

(Data as at 31 Oct 2021)



Assets Under Management



Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk		●	
Credit Risk			●
Exchange Rate Risk	●		
Liquidity Risk			●
Emerging Markets Risk		●	
Derivative Risk			●
Manager Risk		●	

Equity Risk
The fund is predominately invested in shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

Interest Rate Risk
The fund is an equity fund. Higher interest rates may adversely affect valuations of shares.

Credit Risk
This fund does not have significant exposure to corporate debt.

Exchange Rate Risk
The fund predominately invests abroad and it is exposed to foreign currencies. Currency markets may move sharply.

Liquidity Risk
The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk
The fund predominantly invests in securities listed by organisations operating in developed markets, although it can also invest in companies listed in emerging markets.

Derivative Risk
The portfolio is predominantly invested in underlying cash securities.

Manager Risk
The two lead managers are seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the managers were to leave.

FE Risk Rating: 83.00

SRRI: 6

Disclaimer

The value of investment in funds can fall as well as rise, as can any income payment received from an investment. Any information relating to past performance is not a guide to future performance. If you are unsure of an investment decision you should seek professional financial advice.

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