MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

# Maple-Brown Abbott Global Listed Infrastructure Fund

## Monthly Commentary – 30 June 2023

### Fund performance (%) [1]

| | 1 month | 3 months | 1 year | 3 years p.a. | 5 years p.a. | 10 years p.a. | Since inception p.a. 18 Dec 2012 |
|---|---|---|---|---|---|---|---|
| Fund [2] | -0.9 | -0.1 | 9.7 | 10.8 | 7.9 | 10.7 | 12.1 |
| Benchmark (OECD Total Inflation Index + 5.5% p.a.) | 0.9 | 3.4 | 13.6 | 12.1 | 10.3 | 8.7 | 8.6 |
| **Relative performance to Benchmark** | **-1.8** | **-3.5** | **-3.9** | **-1.3** | **-2.4** | **2.0** | **3.5** |
| FTSE Global Core Infra. 50/50 Index [3] | 0.0 | 0.3 | 2.7 | 7.8 | 7.4 | 9.9 | 11.4 |
| S&P Global Infra. Net AUD Index | 0.1 | 0.2 | 6.7 | 11.0 | 6.6 | 9.2 | 10.3 |

### Market commentary

The global listed infrastructure sector was modestly stronger over June. In AUD terms, the reference index (FTSE Global Core Infrastructure 50/50 Net of Tax Index in AUD) was flat, with a strengthening AUD acting as a headwind for returns.

Global equities outperformed listed infrastructure with a 3.1% return for the month as measured by the MSCI World index in AUD terms. The US ten year bond yield increased over the month from 3.64% to 3.82%, which compares to 3.87% at the start of the year.

### Fund commentary

The Fund currently holds 30 global infrastructure stocks and returned -0.9% for June, underperforming the reference index by 0.9%. This completed the quarter with a return of -0.1% for the Fund, which compares to a return of 0.3% for the reference index.

It has been a particularly strong start to 2023 for global equities. In AUD terms the MSCI World index is up 17.2% for the first half of the year. This compares to the Fund returning 7.5% and the listed infrastructure reference index returning 2.1%. Global equities have been propelled by a large rally in US tech stocks. Indeed, the first half of 2023 was the worst first half for US utilities (many of which are in the infrastructure universe) versus the broader US equity market, since the 1990s. US utilities have been relatively weak year-to-date due to the market having interest rate concerns (even though the ten year bond yield has barely changed) and a stronger US economy than many predicted at the start of the year.

There was a mixed bag of relatively good performers in the Fund over June. Orsted, Cheniere Energy and Flughafen Zurich all did well (up 6-9%). Meanwhile Getlink, Cellnex and Severn Trent were the largest detractors (down 2-5%). During the month, except for the UK water sector (discussed below), news flow was relatively limited.

The Fund has nearly 6% invested in UK water utilities and towards the end of the month the privately owned and largest UK water utility Thames Water (not held) ran into financial difficulty. The problems at Thames Water have been brewing for years through a combination of high gearing and poor operational performance. This is in contrast to our listed holdings in Severn Trent and United Utilities. For example, our holdings are geared at around 60% of their regulated asset base (RCV) compared to ~80% at Thames Water. The regulator OFWAT assumes gearing at 60% and a rising interest rate environment can potentially expose more highly leveraged companies depending on the make-up of their debt profile. Severn Trent and United Utilities have a four-star environmental rating from the EPA and they have been able to earn positive financial incentives for good operating performance over recent years. This is in contrast to Thames Water which has a two-star rating and has suffered financial penalties for operational performance. Our view is that the situation at Thames Water is a crisis of the private equity infrastructure ownership model rather than a wider UK water sector issue. In addition, we have observed over recent years that the prices being paid in private transactions globally have been at a material premium to where comparable infrastructure assets trade in listed markets.

**Please see next page for Outlook**

**Notes:**

1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, OECD website, FTSE as at 30 June 2023.

2 The Fund's performance is based on the movement in net asset value per unit plus distributions and is before tax and after all fees and charges. Imputation and foreign income tax offsets are not included in the performance figures.

3 The reference index is the FTSE Global Core Infrastructure 50/50 Net of Tax Index in AUD.

**Want to find out more?**
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### Outlook

The ongoing demand for core infrastructure assets has continued into 2023 and we believe prices being paid by private investors for many assets we look at reflect favourably on current listed infrastructure valuations. One such example seen during the month of June was with Fund-holding NiSource, which announced the sale of a 19.9% stake in its largest regulated utility to Blackstone for more than $2 billion. We highlight this stock as an example of the decarbonisation opportunity that we are attracted to in the US, including the resulting positive financial impacts to the company from its renewables investments. Private investors are no doubt aware of such growth as well and we estimate the minority stake sale was done at a more than 30% rate base premium to where NiSource's share price was trading before the deal and at a more than 70% P/E premium. The transaction highlights the significant valuation gap that we believe exists between private infrastructure investors (like Blackstone) versus the listed infrastructure market.

We believe the Fund continues to be invested in core infrastructure assets that have high barriers to entry and strong strategic positions. We continue to expect that long-dated, stable income streams – like those from infrastructure assets – will be keenly sought by investors and that the sector will benefit from a growing need for additional infrastructure investment.

**For latest Fund factsheet click here.**




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