Q4 2024 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

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2024 Q4 review

Key market drivers

Global equity markets ended the year with a volatile Q4, with the US elections culminating during the quarter as the most significant event of the year for the markets. While equity markets started the quarter on a slightly cautious note, they rose strongly during November after President Trump was sworn in for his second term. The strong performance was led by US equities and supported by the anticipation of a more supportive business environment as well as potential reduction in corporate tax rates. However, a constant feature during the quarter was the rise in the US long term sovereign bond yields, as the incoming administration's policies are expected to be inflationary, and this was particularly negative for the Listed Infrastructure Fund. Furthermore, in December, the US reported slightly higher than expected November inflation numbers at 2.7%, which prompted the Fed to adopt a more hawkish tone and indicate that there will likely be fewer cuts in 2025.

Communication towers was one of the main reasons for the poor performance during the quarter, as rising yields pressured the sector, though business performance remains resilient for most of the sector. Encouragingly, data centers were one of the best performers during the quarter, along with waste operators. Energy pipelines, however, remained the outstanding performer during the quarter, rising by nearly 20% on average and providing some support to the portfolio performance. North American equities performed very strongly, driven by the result of the US elections, while European equities endured a tough quarter.

Key portfolio drivers

Transport infrastructure was one of the best performers during 2024, though it pared some gains during the last quarter, especially driven by toll roads. Despite all toll roads in our portfolio reporting solid Q3 results, and Ferrovial announcing the closing of the sale of its remaining stake in Heathrow Airport, as well as doubling its stock buyback program to EUR 600m, the segment fell led by Vinci. The French toll road operator remained under pressure due to the political uncertainty in France, and the possible imposition of a tax on French infrastructure operators. The less-than-truckload logistics companies also declined during the quarter following weaker than expected results reported by one of their largest peers.

After the very strong performance in Q3, communication infrastructure was the weakest performer in Q4 as the sector fell victim to rising US long term sovereign bond yields. Towers drove down the performance of the sector, though Equinix provided some support during the quarter after reporting strong Q3 results. Crown Castle was especially weak as it reported slightly weaker than expected Q3 results. The full-year 2024 outlook was revised down following the cancellation of approximately 7k small cell nodes, which are expected to result in asset write-down charges during the fourth quarter. Macro tower organic growth, however, remained healthy in 3Q, which was also a positive read-across for the entire segment.

Utilities contributed positively to Q4 performance, driven by the performance of waste operators and by energy midstream, but reduced by the poor returns generated by certain regulated utilities and by renewables. US pipelines were the strongest performers during Q4 as expectations of energy friendly policies from the Trump administration drove the sector higher, despite oil prices being range-bound during the quarter. Kinder Morgan was the best performer for the quarter as demand for energy remains strong, particularly from data centers, and continues to support a favorable outlook. Orsted, the Danish off-shore wind farm developer, on the other hand remained one of the weaker performers, though it continued to divest some of its unprofitable projects, selling a part of its UK wind portfolio to Brookfield. Additionally, Norway's Equinor took an almost 10% stake in the company in early October. While both news should have been positive for investors, the share price remained pressured by rising yields instead.

Finally, both the social infrastructure operators in our portfolio slightly decreased in value during the quarter, with HICL slightly worse among the two. Both are trading at double-digit discounts to NAV.

Portfolio positioning and outlook

During the quarter, we made a single change as we reduced our allocation to Crown Castle and instead, re-allocated to Inwit – a European peer within the tower space. This was after the US towers had performed very strongly during Q3, and we believed that Inwit was screening more attractively on valuation and longer-term outlook. Apart, we mostly took advantage of price movements to rebalance our positions to target across the portfolio without changing our target allocations.

Among sectors, communications infrastructure remains one of our key sector focuses over the next few years, given the strong tailwinds for the sector. We continue to see large investment needs for the sector that could drive earnings growth over the medium to long term. We see more scope of outsourcing towers by MNOs in Europe, and the 5G investments by the US-based MNOs are expected to accelerate further. These are companies that are expected to grow at mid-to-high single digits (higher in certain cases), with very long-term contracts (~30Y in some cases), and with very healthy EBITDA margins (>50%). They also have inflation escalators, with very low maintenance capex as % of revenue. We do not believe the sub-18x P/AFFO multiples will last for very long, and the market will react positively to earnings growth for the sector. Data centers are also expected to benefit from such long-term secular trends. We have increased our position in communication infrastructure over the past two years since we find that underlying fundamentals and leasing activity all remain robust.

We continue to see good opportunities within regulated utilities, especially in certain specific names, both in the US and Europe. While most of the companies have been reporting healthy results since Covid, it is only in 2024 that we saw a healthy growth in their returns, compensating for the stale performance in the prior years. Despite the good performance, we believe the mid-to-long term outlook for our portfolio companies within this segment remains healthy, and in some cases, the valuation is extremely compelling (China utilities and Elia, for example). However, within the sector, we continue to emphasize on electric and water utilities, and have changed allocations accordingly. Furthermore, those utilities that are subject to stable regulation, have a strong balance sheet and meaningful capex on their regulated asset base, should also provide better performance even in a rising interest rate environment.

We remain positive on the US waste managers, and our exposure to the sector has grown accordingly over the past two years. Finally, while performance of transport infrastructure has recovered to some extent, we find that toll road traffic has recovered more meaningfully, but airport passenger numbers are still slightly below pre-Covid levels for certain companies. Furthermore, the toll roads are also trading at a more appealing valuations than airports, and we therefore have a higher allocation to the former. We are cautious on airports over the medium-term, and especially on those that are exposed to international long-haul, business and transfer traffic. We also remain positive on the outlook for railroads.

In summary, our portfolio is well-balanced between defensiveness and growth, and well-diversified across infrastructure sectors. 2/3rd of the portfolio remains invested in less GDP-sensitive sectors such as regulated utilities, towers and social infrastructure operators, which will likely still provide growth even in an economic downturn scenario. The underlying portfolio companies continue to perform well from a fundamental point of view. Furthermore, a scenario of rising nominal rates is not a negative per se for Partners Group Listed Infrastructure as more than 70% of the portfolio companies' underlying revenues are directly or indirectly linked to inflation.

ESG

We believe it is worthwhile highlighting that the Fund follows an ESG approach like all Partners Group products. Partners Group has been an early mover in ESG, as a UNPRI signatory since 2008 and with a dedicated ESG team that has been in place for many years. We have in the past and continue to decline certain investments purely on ESG concerns and the exclusion of power generation and in particular "dirty" coal fired power plants and "tail risky" nuclear power plants makes our Fund even further ESG relevant. We would also like to highlight that our fund is rated 'AA' – by the MSCI ESG platform.

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