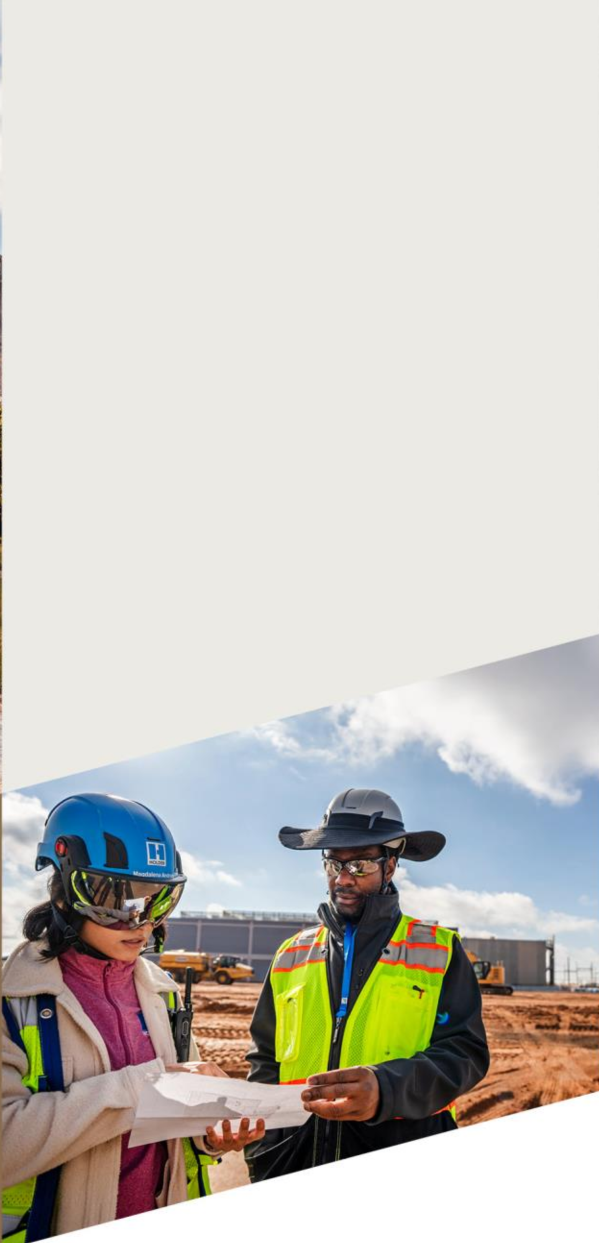

Q1 2024 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

PARTNERS GROUP

Built Differently to **Build Differently**

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2024 Q1 review

Key market drivers
Following the good performance in Q4 of last year, global equity markets started 2024 on a very strong footing, led mainly by a few large-cap technology sector companies. The US Q4 GDP rose by 3.3%, and consumer sentiment was its highest level since 2021, bolstering this equity rally, though it has created uncertainty about the timing of the rate cuts. Consequently, the US Fed and the ECB have both maintained rates at elevated levels, and expectations for the number of cuts this year have also reduced. This had a dampening impact on the performance of long-duration assets, such as infrastructure, which failed to match up to the rally in broader equity market indices. On a positive note, several of our portfolio companies reported FY 2023 results during the quarter, and they continued to reflect strong underlying business performance across most infrastructure sectors. Chinese equities were an exception, however, as the economy grew by 5.2% in 2023, which matched already bearish expectations.

During Q1, the Partners Group Listed Investments SICAV – Listed Infrastructure fund rose by 1.7%, but underperformed its benchmark by 150 bps, largely due to performance differential in March. The fund was ahead of the benchmark by a similar amount at the end of February but lost that relative performance in March as yields continued to climb following strong economic numbers in the US and the EU. Furthermore, the energy sector was one of the stronger performers during the quarter, as oil and gas prices climbed, and helped the relative performance of the benchmark. The performance of the fund in Q1 was supported by the transport and the utility (including energy) sectors, while communication infrastructure was especially weak, driven mainly by the rise in yields rather than a deterioration of business performance. Among regions, North American equities performed very strongly and drove most of the performance for the fund, while Australian and UK equities were the principal detractors of performance during the quarter.

Key portfolio drivers
Transport infrastructure continued the strong performance from the previous quarter, and rose by over 5%, driven mainly by airports. Flughafen Zurich was among the strongest performers during the quarter as it reported solid FY 2023 results and provided supportive guidance for 2024, as well as increased dividends by over 50%. The company now expects 2024 traffic to be at c. 95% of 2019, which was ahead of previous market forecasts. Additionally, the Swiss regulators are considering a potential roll-over mechanism, which could mean that the company would get a retrospective uplift from the underperformance during the pandemic. Toll roads and railroads also contributed positively to the fund performance, though less than airports. Ferrovial was one of the standout performers within toll roads, as it initiated the process to list its shares on the Nasdaq, in addition to its listings in Madrid and in Amsterdam. The company aims to increase its investments in the US, so a listing at the Nasdaq should increase its appeal to international investors. Furthermore, the company also received a double-digit hike in its tolls charged on the ETR 407 highway in Canada after a four year freeze. This was higher than expectations and also contributed to the strong performance of its shares.

Communication infrastructure, after a very strong performance in Q4 last year, was the major detractor within the portfolio, with performance largely driven by the rise in yields rather than any material slowdown in business activity. All the towers in the portfolio declined in value,

despite all of them reporting healthy FY 2023 results. Cellnex also organized a Capital Markets Day in March, where they outlined their growth plans, increased remuneration of shareholders, and its credit rating was upgraded to investment grade. Despite these positive events, Cellnex remained one of the weakest performers within the portfolio for the quarter, though we believe valuation seems even more appealing now, given its assured growth outlook. American Tower and SBA Communications also reported good FY 2023 results but were among the worst performers for the quarter.

Within utilities, the waste managers were the best performers, rising by over 14%, driven by very strong FY 2023 results. They continue to benefit from moderating inflation, driving improved margins and accelerating unit profitability. Waste Management and Republic Services also increased EBITDA by 7% and 13% in 2023, respectively, improving profitability while continuing to grow revenues. Both companies have also demonstrated that they can consistently increase prices above inflation, which we expect will lead to further margin improvement in the future. Energy pipelines in the portfolio also contributed positively to performance, rising by 7% on average for the quarter. Williams – the US operator – performed well since reporting solid FY23 results, and its target price was increased by analysts on the back of strong gas demand, as well as the announcement that energy company EQT Corp is acquiring Equitrans Midstream, which removed a deal overhang for the company. Regulated T&D utilities increased slightly in value during the quarter, while regulated water utilities declined marginally, but the combined impact on the portfolio performance was small.

Finally, both the social infrastructure operators in our portfolio declined in value, though FY 2023 results for both were largely in-line.

Portfolio positioning and outlook

Regulated utilities and communication infrastructure both remain the largest allocations within our portfolio, and in 2023, we increased our exposure to communication towers by selectively reducing the allocations to airports and to Chinese gas utilities. In the past quarter, we have made no changes to the portfolio, though we have initiated research on a new sector – logistics. No new investments were made in the previous quarter either.

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 percentage of revenue. We do not believe the sub-20x 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. Most of the companies within the sector have reported strong FY 2023 earnings, and we expect this trend to continue. During the pandemic, the regulated utilities did not modify their medium-term investment plans or faced unfavorable changes to their regulation, both of which are promising indicators for the

sector's earnings growth potential. 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. This is evident from observing Vinci's reported numbers as toll road traffic in 2022 was already above 2019 levels, while airport passenger numbers are expected to exceed pre-pandemic levels in the 2023-25 periods. We continue to take a cautious approach on the sector and believe traffic on toll-roads will continue to recover faster than airports, as appetite for travel remains. Furthermore, toll road valuations are attractive. 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. Two thirds of the portfolio remain 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 negative per se for the Partners Group Listed Investments SICAV – Listed Infrastructure fund 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 2001 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.

Contacts

partnersgroup@partnersgroup.com
www.partnersgroup.com

Zug
Zugerstrasse 57
6341 Baar-Zug
Switzerland
T +41 41 784 6000

Denver
1200 Entrepreneurial Drive
Broomfield, CO 80021
USA
T +1 303 606 3600

Houston
Williams Tower
2800 Post Oak Blvd.
Suite 5880
Houston, TX 77056|
USA
T +1 346 701 3900

Toronto
Exchange Tower, 130 King
Street West, Suite 2830
Toronto, ON M5X 1E2
Canada
T +1 416 521 2530

New York
The Grace Building
1114 Avenue of the Americas,
41st Floor
New York, NY 10036
USA
T +1 212 908 26 00

São Paulo
Rua Joaquim Floriano,
1120 – 11º andar
CEP 04534-004,
São Paulo – SP
Brazil
T +55 11 3528 6500

London
33 Charterhouse Street
London EC1M 6HA
United Kingdom
T +44 20 7575 2500

Guernsey
P.O. Bos 477
Tudor House, Le Bordage
St Peter Port, Guernsey
Channel Islands, GY1 1BT
T +44 1481 711 690

Paris
29-31 rue Saint Augustin
75002 Paris
France
T +33 1 70 99 30 00

Luxembourg
35D, avenue J.F. Kennedy
L-1855 Luxembourg
B.P. 2178, L-1021 Luxembourg
T +352 27 48 28 1

Milan
Via della Moscova 3
20121 Milan
Italy
T +39 02 888 369 1

Munich
Lenbachpalais
Lenbachplatz 3
80333 Munich
Germany
T +49 89 383 89 240

Dubai
Office 107, level 1
Gate Village 11, The Exchange
DIFC, Dubai, UAE
POBOX 507253
T +971 4 316 9555

Mumbai
601, 6th Floor, Piramal Tower
Peninsula Corporate Park
Ganapatrao Kadam Marg,
Lower Parel
Mumbai-400013
India
T +91 22 4289 4200

Singapore
8 Marina View
Asia Square Tower 1 #37-01
Singapore 018960
T +65 6671 3500

Manila
18/F Seven/NEO Building
5th Avenue Corner 26th Street
Bonifacio Global City, Taguig
1634 Metro Manila
Philippines
T + 63 2804 7100

Shanghai
Unit 1904-1906A, Level 19
Tower I, Jing An Kerry Center
No. 1515 West Nanjing Road
Jing An District,
Shanghai 200040
China
T +8621 2221 8666

Seoul
25th Fl. (Gangnam Finance
Center, Yeoksam-Dong)
152 Teheranro
Gangnam-Gu, Seoul 135-984
South Korea
T +82 2 6190 7000

Tokyo
Marunouchi Park Bldg. 6F
2-6-1 Marunouchi, Chiyoda-ku
Tokyo 100-6906
Japan
T +81 3 5219 3700

Sydney
Level 32, Deutsche Bank Place
126 Phillip Street
Sydney NSW 2000
Australia
T +61 2 8216 1900