Q2 2024 Review

Partners Group Listed Investments SICAV – Listed Infrastructure

PARTNERS GROUP

Built Differently to **Build Differently**

Disclaimer

This material has been prepared solely for purposes of illustration and discussion. Under no circumstances should the information contained herein be used or considered as an offer to sell, or solicitation of an offer to buy any security. Any security offering is subject to certain investor eligibility criteria as detailed in the applicable offering documents. The information contained herein is confidential and may not be reproduced or circulated in whole or in part. The information is in summary form for convenience of presentation, it is not complete and it should not be relied upon as such.

All information, including performance information, has been prepared in good faith; however Partners Group makes no representation or warranty express or implied, as to the accuracy or completeness of the information, and nothing herein shall be relied upon as a promise or representation as to past or future performance. This material may include information that is based, in part or in full, on hypothetical assumptions, models and/or other analysis of Partners Group (which may not necessarily be described herein), no representation or warranty is made as to the reasonableness of any such assumptions, models or analysis. Any charts which represent the composition of a portfolio of private markets investments serve as guidance only and are not intended to be an assurance of the actual allocation of private markets investments. The information set forth herein was gathered from various sources which Partners Group believes, but does not guarantee, to be reliable. Unless stated otherwise, any opinions expressed herein are current as of the date hereof and are subject to change at any time. All sources which have not been otherwise credited have derived from Partners Group.

2024 Q2 review

Key market drivers
Global equity markets witnessed elevated volatility during Q2 amid rising geopolitical tensions in the Middle East, as well as an increasingly hawkish interest rate outlook. Though inflation continued to be stubbornly above expectations, key economic data continues to be robust. The markets also expect some rate cuts later in the year, albeit with some divergence emerging in the timing between Europe and the US. While the ECB has already made one rate cut, with expectations of another later this year, the Fed is likely to make a single rate cut perhaps in September or October this year, as the US economy and the jobs market remain robust. The positive performance of broader equity markets, especially in the US, was largely driven by the continued strength of a few large-cap tech companies, with just five names contributing 60% of the S&P 500's 14% return in H1. Listed Infrastructure has, however, delivered a muted performance so far this year, impacted by the uncertainty of rate cuts, rather than any fundamental weakness of the portfolio companies.

During Q2, the Partners Group Listed Investments SICAV – Listed Infrastructure Fund fell by 3%, and underperformed its benchmark. The key reasons for this relative underperformance were the positive return delivered by generation utilities and the energy sector, together comprising nearly 50% weight in the benchmark. We have no exposure to generation utilities (ESG reasons) and have relatively lower exposure to energy as compared to the benchmark, which also has an allocation to upstream energy (non-core infrastructure). Transport infrastructure was another important reason for the underperformance, as railroads, toll roads and logistics companies all fell during the quarter. Among regions, North American and European portfolio companies performed weakly, while Chinese equities delivered positive returns during the quarter.

Key portfolio drivers
Transport infrastructure was one of the key detractors within the portfolio during Q2, as the continuing positive performance of airports was insufficient to compensate for the weak performance of railroads, toll roads and logistics. Vinci, the French toll road operator, was among the weakest performers during the quarter following the results of the French EU elections, and the subsequent announcement of a general election by President Macron. With over 50% of the French vote in the EU elections going to parties on the far right and far left, Macron surprised the markets by calling a snap parliamentary election in June, which saw volatility spike. Most French stocks sold off as investors await more clarity in the coming weeks. On the other hand, Aena continued to perform strongly, as traffic for 2024 is expected to be materially higher than in 2019, with a leaner cost structure following the Covid disruptions.

Communication infrastructure has been a weak performer so far this year, with performance largely driven by the rise in yields rather than any material slowdown in business activity. The US communication infrastructure REITs all declined in value during the quarter as US yields increased on the back of a higher-than-expected inflation print. The weakness in performance was despite the better-than-expected Q1 results posted by American Tower and Crown Castle, and in-line results by SBA Communications. American Tower is also guiding to mid-to-high single digit annualized growth in cash flows for the rest of the decade – a guidance it has maintained for a few years. All three US towers are trading at attractive valuations currently, and we remain confident that their business strength will likely reverse this performance trend observed so far this year.

Utilities, broadly, were a more sedate performer during Q2, but with wide performance differentials among sub-sectors. Waste managers, water utilities and midstream energy companies in the portfolio all performed well, but regulated T&D utilities were weak. The weak performance of T&D utilities was led by National Grid as it surprised the market by announcing a GBP 7.0 billion rights issuance. The utility is looking to improve its capital structure in order to fund its multi-year capex program of GBP 60 billion, primarily investing in electricity networks. The utility expects the large capex program to drive a 10% CAGR in its regulated asset base over the next five years. In addition to the rights issuance, the news on the upcoming UK general election also created increased uncertainty around UK-listed infrastructure stocks. On the flip side, Chinese gas utilities have performed well this year as the Chinese government signaled a more supportive stance towards residential tariff hikes. While the sector has been struggling to increase prices over the last years, this is a positive development, likely leading to improved margins across the sector. Moreover, the valuations in the sector remain low compared to historical standards.

Finally, both the social infrastructure operators in our portfolio increased in value during the quarter, with BBGI among the stronger performers due to its more diversified exposure and largely availability-based contracts.

Portfolio positioning and outlook

During the quarter, we initiated positions in a new sub-sector – Less-Than-Truckload – which is within the logistics sector. The companies within this sub-sector are all based in the US, and our research showed that it has the characteristics to be classified as core infrastructure. We have added two new small positions – Old Dominion Freight Line and ArcBest – for different reasons, and we believe that both have the potential to be larger positions in the future.

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-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. 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 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

Hong Kong
Suites 21-22, 18F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong
T +852 3610 0408