First State Investments 首域投資

Global Listed Infrastructure

Monthly Review and Outlook

February 2016

- First State Global Listed Infrastructure Fund invests in global listed infrastructure and infrastructure-related securities.
- Investing in shares in a single sector may expose the Fund to greater volatility than investing in multiple sectors. The value of the Fund may be impacted by risks associated with listed infrastructure including changes in environmental regulations. It is possible that the entire value of your investment could be lost.
- All or part of the Fund's fees and expenses may be paid out of capital resulting in an increase in distributable income and effectively a distribution out of capital. Similarly in certain circumstances dividends may be paid out of capital. This amounts to a partial return of an investor's original investment, or from any capital gains attributable to that original investment, and may result in an immediate decrease of the Net Asset Value per share.
- You should not base your investment decision solely on this document. You should not invest unless the intermediary who sells it to you has advised you that the Fund is suitable for you and explained how it is consistent with your investment objectives.

Key highlights:

- The Global listed infrastructure gained 1.3% compared to a 0.6% fall by global equities.
- The Fund delivered a +3.4% return to investors as active management added 210bps over the month.
- Structural growth sectors including railroads, airports and toll roads led the gains as signs of market confidence re-emerged.

Market review

Global listed infrastructure continued its strong start to 2016. In USD terms (total return), the FTSE Global Core Infrastructure 50-50 index rose 1.3%, while global equities ended the month fell 0.6%.

Energy Pipelines was the best performing infrastructure sub-sector this month driven by stabilising oil and gas prices, value emerging in core businesses, equity raisings reducing financing concerns and news that Berkshire Hathaway had acquired a stake in industry giant Kinder Morgan. Volume-sensitive **Railroads** also bounced back from recent lows helped by resilient core pricing, aggressive cost reduction programs and M&A speculation from US freight railroad operators. The worst performing sector was **Satellites,** which was impacted by weak earnings and outlook comments from Intelsat and Eutelsat, illustrating the structural headwinds facing this sector. **Towers** also underperformed as churn and FX caused following slower than expected growth from the three major US mobile tower operators.

Oceania was the best performing geographic region, buoyed by a stronger than anticipated earnings result from Auckland Airport and a higher than expected dividend from Australian freight railway, Aurizon. **Latin America** gained on better than expected earnings and volumes from Mexican infrastructure names and less bad outlooks in Brazil. The worst performing region was **Japan**, as concerns around lower inbound tourist numbers weighed on Japan Airport Terminals and passenger rail operators.

Infrastructure corporate activity levels were high this month. London City Airport was sold to a consortium of Canadian pension funds for a rumoured price of 28x EV/EBITDA compared to listed airports in Europe which are currently trading on 10-12x EV/EBITDA. Australia's freight rail and port operator, Asciano (flat), agreed to a takeover offer from a consortium of Australian and Canadian investors. Utility giants Southern Company (US) and E.ON (Germany) both acquired energy storage businesses in order to better navigate the decentralised future of electricity.

Fund review

In USD terms, the Fund returned **3.4%** in February[1], **210 bps** ahead of its benchmark index.

The best performing stock in the portfolio was UK-listed **BBA Aviation**, which runs private jet airports in the US. The company rallied on approval from the US Department of Justice for its recent acquisition of Landmark Aviation.

Energy pipelines continued their 2016 rebound. Portfolio holdings **Kinder Morgan**, **Spectra Energy** and **Magellan Midstream Partners** increased as investors took advantage of the value currently available within the sector. A rising oil price during the second half of the month boosted sentiment towards the sector. We would caution that we expect this sector to have a difficult 2016 as US energy producers face low prices with high debt levels – not a great combination.

North America utilities continued to deliver pleasing returns to investors. Gas utility **UGI** announced quarterly earnings results ahead of market expectations from its propane and midstream divisions. Electric utilities **Exelon** and **Xcel Energy**; and multi-utilities **Alliant Energy** and **PG&E** also gained on the back of solid 4Q15 earnings and 2016 outlook comments.

[1] The Fund's calendar year performance: -5.7% (2015); 12.3% (2014); 17.3% (2013); 10.4% (2012); 1.2% (2011).

Railroads **Kansas City Southern**, **Union Pacific** and **CSX** delivered robust returns on the announcement of less bad earnings results and data showing volumes declining at a slower rate. However the holding in Japanese passenger railroad, **East Japan Railway**, lagged on concerns over a potential slowdown in passenger volumes.

The worst performing stock in the portfolio was **Eurotunnel**, which underperformed on the announcement that a vote on the Brexit would be held in June; a weaker GBP; and concerns surrounding short term pricing. Returns from other Eurozone holdings were mixed. Concerns about economic growth prospects weighed on Italian toll road **Atlantia** and German airport Fraport. Spanish holdings were the bright spot in Europe; airport **AENA** rose as they continue to benefit from strong passenger growth and cost efficiency; while Spanish toll road operator **Abertis** gained on robust traffic growth forecasts including 1.5% on its French concessions, 3.5% in Chile and 4% in Spain.

Holdings in communication towers **SBA Communications**, **American Tower** and **Crown Castle** detracted from fund performance in February. This was due to softer than expected growth for the core US markets as telecom customers' current churn rates appear higher than normal.

Transactions

During the month, the Fund sold its holdings US electric transmission company, **ITC Holdings**, following a takeover offer from Canadian based utility, **Fortis**. Holdings in US multi-utility **NiSource** were also sold following significant outperformance.

Outlook

The Fund invests in a wide range of global listed infrastructure assets including toll roads, airports, ports, railroads, utilities, pipelines, and mobile towers. These sectors share common characteristics, like barriers to entry and pricing power, which can provide investors with inflation-protected income and strong capital growth over the medium-term. Our investment process continues to favour Toll roads, Mobile towers and Railroads. Underweight exposure has been maintained in sectors trading at valuations that we find difficult to justify on fundamentals, such as some Utilities and Airports.

As a still growing asset class, a number of clear inefficiencies exist in the listed infrastructure market, giving managers the scope to generate alpha by taking an active approach. For example, the sector is under-researched, with few brokers providing dedicated listed infrastructure research coverage. Some infrastructure stocks have only been listed in the last decade, and investors are still building knowledge about the assets and their management. In addition, valuation differentials can arise between similar stocks in the same sector, but which are listed in different countries.

Specialist global listed infrastructure teams are well-positioned to identify and capture the mispricing that arises as a result, by carrying out on-the-ground research, conducting thorough due diligence, and focussing on quality.

As with any asset class, there are risks involved. The threat of political or regulatory intervention can be a key risk for infrastructure investors. These risks can be mitigated by using an active manager, who is able to recognise and manage these risks appropriately.