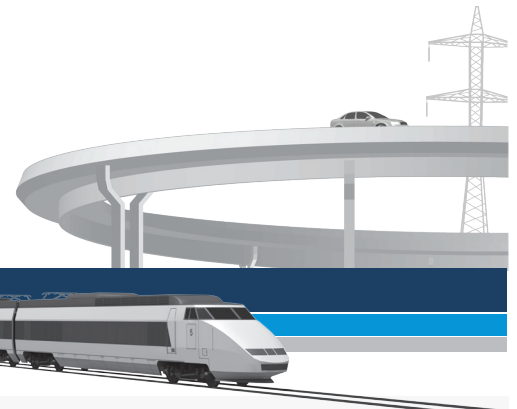


# First State Global Listed Infrastructure Fund

## Monthly Review and Outlook

July 2017



- The 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.

## Market Review

Global listed infrastructure delivered positive returns in July against a backdrop of healthy earnings numbers and investor-friendly capital management initiatives.

The best performing sector was Ports, which benefited from favourable volume momentum. Sentiment was also buoyed by a wide ranging free-trade agreement between the European Union and Japan, scheduled to come into force by early 2019.

The worst performing sector was Railroads. Despite solid recent earnings releases, US freight rail was affected by signs of mounting competitive pressures and concerns that CSX faces difficulties as it implements its operational restructure.

The best performing region was Asia ex-Japan, whose ports, airports and utilities rallied on a brightening economic outlook for China. Australia / NZ underperformed as local bond yields ticked higher.

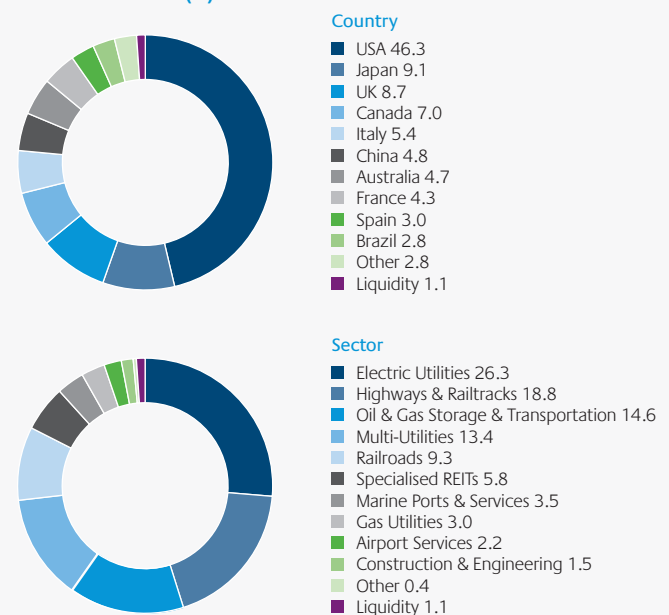
## Performance Review

The Fund gained 2.1% in July<sup>1</sup>, 72 basis points behind the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

	Cumulative Performance in USD (%) <sup>1</sup>					
	3 mths	YTD	1yr	3yrs	5yrs	Since inception
<b>Class I (USD - H Dist)</b>	4.9	15.8	11.1	22.7	66.3	68.2
<b>Benchmark*</b>	5.9	16.2	10.7	22.8	73.9	63.1

	Calendar Year Performance in USD (%) <sup>1</sup>				
	2016	2015	2014	2013	2012
<b>Class I (USD - H Dist)</b>	11.7	-5.7	12.3	17.3	10.4
<b>Benchmark*</b>	11.3	-6.0	13.6	17.9	12.7

### Asset Allocation (%)<sup>1</sup>



<sup>1</sup> Source: Lipper & FSI, Nav-Nav (USD total return) as at 31 July, 2017. Since inception date: 27 June 2008. Performance is based on First State Global Listed Infrastructure Fund Class I (USD - H-Dist). This is the semi-annually dividend distribution class of the fund. The performance quoted are based on USD total return (with dividend reinvested). Dividends are not guaranteed and may be paid out of capital. \*The benchmark displayed is the FTSE Global Core Infrastructure 50/50 Index.

Top 10 holdings (%) <sup>1</sup>

Stock name	Sector	%
National Grid plc	(Multi-Utilities)	7.9
Enbridge Inc.	(Oil/Gas Storage & Trans.)	5.9
American Tower Corporation	(Specialised REITs)	5.2
Atlantia S.p.A	(Highways & Railtracks)	5.0
Transurban Group Ltd.	(Highways & Railtracks)	4.7
Kinder Morgan Inc Class P	(Oil/Gas Storage & Trans.)	4.7
East Japan Railway Co	(Railroads)	4.5
Dominion Resources, Inc.	(Multi-Utilities)	4.3
NextEra Energy, Inc.	(Electric Utilities)	4.3
American Electric Power Company, Inc.	(Electric Utilities)	4.2

The best performing stock in the portfolio was China Merchants Port Holdings. Improving global trade levels supported organic volume growth of 7.5% across its Chinese and Emerging Market port assets for the first half of 2017, well ahead of the forecast 3% - 5% growth rate. The company announced plans to acquire an 85% stake in Sri Lanka's Hambantota Port for US\$1.1 billion, a strategically situated port on the main shipping route between Asia and Europe. COSCO Shipping Ports, the world's fifth largest port operator, also benefited from favourable operating conditions, reflected in 1H organic volume growth of 8%. Volume data from recent months implies that the port sector could now be at the beginning of an earnings upgrade cycle, as conservative market assumptions are revised higher.

Hong Kong-listed Power Assets Holdings, which owns a UK- and Australia-focused portfolio of utility assets, climbed following the long-awaited announcement of a special dividend, equivalent to ~11% of its pre-announcement share price. US electric utility Great Plains Energy outperformed on a positive market response to its rekindled US\$14 billion merger proposal with peer Westar Energy (not owned). The revised terms would see the two Kansas / Missouri-focused firms combine as equals, creating a substantial Midwest utility with material scope for cost savings.

Kinder Morgan, one of North America's largest energy infrastructure companies, outperformed as investors welcomed the earlier-than-expected announcement of its capital management plans. Measures include a 60% increase for its 2018 dividend; a projected annual dividend growth rate of 25% between 2018 and 2020; and a US\$2 billion share buyback. This material change reflects the company's resilient operational performance and significant balance sheet improvements.

The worst-performing stock in the portfolio was US east coast freight rail operator CSX which lagged as very strong 2Q earnings numbers achieved under recently-appointed CEO Hunter Harrison's "precision scheduled railroading" strategy

fell short of bullish consensus expectations. The company increased its share buyback to 3% of shares on issue, and maintained its full year guidance.

The stable, low beta Japanese passenger rail sector also lagged, despite East Japan Railway and Central Japan Railway both announcing steady 1Q earnings and maintaining earnings guidance.

Canadian multi-utility Hydro One fell as news of its US\$4.4 billion acquisition of US Northwest utility Avista (not owned) met with a cautious reception from the market. The move reflects the company's stated aim of "responsibly exploring potential opportunities both in and outside of Ontario". Despite the full purchase price, the combined entity's enhanced scale presents opportunities for efficiency gains.

The Fund divested its remaining shares in US electric utility El Paso Electric after a number of catalysts, including the replacement of its old coal-fired generation with cleaner gas assets, played out during the Fund's holding period. The resulting outperformance saw the stock's ranking move lower within our investment process, leading us to sell.

## Market Outlook and Fund Positioning

The Fund invests in a 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.

Investment fundamentals across the asset class remain robust. Balance sheets are generally healthy, with prudent borrowing levels in most regions. Earnings Per Share are forecast to grow at between 7% and 9% pa over the next two years. Conservative payout ratios, typically between 60% and 70%, provide well-managed infrastructure companies the scope to raise dividend payments from current levels.

High corporate confidence and pension fund appetite continues to drive demand for listed infrastructure assets, as indicated by recent or proposed deals in the toll road, energy pipeline, utilities and mobile tower sectors.

We view valuations as being fair to full, with clearly under-priced listed infrastructure assets having become harder to find over the past two years. That said, it remains possible to identify mispricing opportunities both between and within sectors, providing opportunities for successful active managers to create alpha.

<sup>1</sup> Source: Lipper & FSI, Nav-Nav (USD total return) as at 31 July, 2017. Since inception date: 27 June 2008. Performance is based on First State Global Listed Infrastructure Fund Class I (USD – H-Dist). This is the semi-annually dividend distribution class of the fund. The performance quoted are based on USD total return (with dividend reinvested). Dividends are not guaranteed and may be paid out of capital.

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