First State Investments

Global Listed Infrastructure

Monthly Review and Outlook

June 2016

Key highlights:

- The global listed infrastructure asset class protected capital in a month of significant geopolitical and financial market uncertainty.
- First State Global Infrastructure (the "Fund") increased 0.1% in June, underperforming its benchmark by 220 bps but significantly outperforming global equities which were down 3.4%.
- The best performing infrastructure sub-sectors this month were the more interest rate-sensitive utility, mobile tower and energy pipeline sectors.

Market review

The British vote to leave the European Union dominated financial markets in June. This material geopolitical uncertainty caused significant financial market volatility. Against this backdrop, the global listed infrastructure asset class performed strongly, protecting capital value as interest rates fell globally. In SGD terms (total return), the FTSE Global Core Infrastructure 50-50 index rose 0.1% in June, a strong performance relative to global equities which fell by 3.4%.

The best performing infrastructure sub-sectors in June were **Utilities**, **Mobile towers** and **Energy pipelines**. Utility stocks benefits from falling bond yields, low exposure to weakening economic activity and investor flight to safety. The worst performing subsectors were **Satellites** and **Railroads**. The satellite sector is suffering from pricing reductions due to significant capacity expansions, as well as structural demand headwinds.

On a regional basis, the **UK** and **North America** were the strongest performers due to their large utility exposures which benefited from falling interest rates. On the downside, **Japan** and **Europe** infrastructure declined. Japanese infrastructure was adversely impacted by the rising Yen's likely negative impact on economic growth.

Fund review

In SGD terms, the Fund returned 0.1% in June, underperforming its benchmark by 220 bps.

The best performing stock in the portfolio this month was US-based energy pipeline company, **Spectra Energy**. The Fund's holdings in other energy pipeline companies including **TransCanada**, **Magellan Midstream Partners** and **Enbridge Inc** also performed strongly. These robust performances were driven by stabilising energy prices, lower interest rates and high cash flow levels.

The second best performing stock this month was Brazilian water utility, **SABESP**. The Fund's other Brazilian holding, toll road operator CCR, also delivered a robust share price performance as the market becomes less pessimistic about the political, economic, inflation and interest rate outlooks for Brazil.

The US mobile tower sector was a significant driver of Fund performance in June with **Crown Castle**, **SBA Communications** and **American Tower** all rising on the back of the recently-held annual tower industry conference, PCIA, reinforcing the long-term structural growth in tower leasing.

Significant holdings in multiple US electric and gas utilities helped protect capital in June with strong share price performances from **AES Corporation**, **Duke Energy**, **Xcel Energy**, **NextEra Energy** and **Eversource Energy**. These utilities continue to deploy capital in renewables, transmission and distribution assets at attractive risk-adjusted return levels to decarbonize the electricity sector.

The worst performing stock in the portfolio this month was **Eurotunnel**. Britain's decision to likely leave the European Union is expected to result in lower economic growth which will reduce truck and passenger traffic through Eurotunnel. While we now forecast lower earnings in 2017, we believe the market has significantly over-reacted by aggressively selling off this high quality, long life concession company. Fund performance was also adversely impacted by holdings in other European transport infrastructure companies including **Atlantia**, **Abertis** and **Fraport**.

The strengthening Yen saw the Fund's two Japanese infrastructure holdings, **Kamigumi** and **East Japan Railway** fall in June. We believe both of these companies are relatively immune to slow domestic economic growth and to the adverse impact of a higher Yen on Japanese exports.

The Fund acquired a small position in **Japan Airport Terminal**, which owns and operates the terminals at Tokyo's Haneda Airport. Over the past 12 months a weakening economic backdrop in Japan has caused the company's share price to fall substantially, despite consistently strong inbound tourist numbers and a positive outlook for tourist numbers in the run-up to Tokyo hosting the 2020 Olympics. This represented an excellent opportunity to enter the stock at an attractive discount to intrinsic value.

The Fund exited positions in US energy pipeline company **Columbia Pipeline Group**, following shareholder approval to be acquired and US electric utility **Exelon Corporation**, post strong relative share price performance.

Outlook

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.