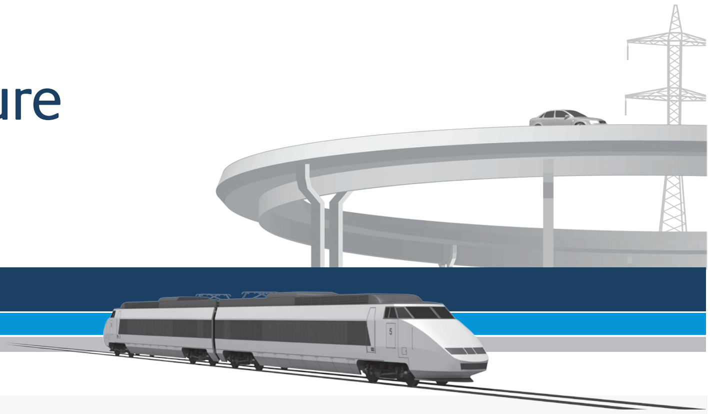
First State Global Infrastructure

Monthly Review and Outlook

July 2017



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.

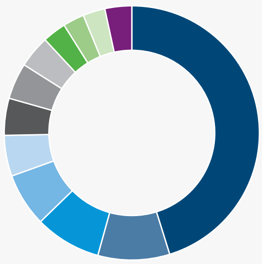
Performance Review

The Fund gained 1.1% in July [1], 34 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

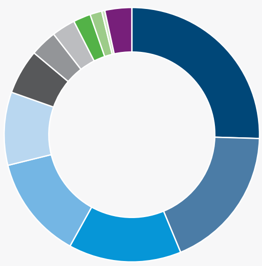
Annualised Performance in SGD (%) [1]	1yr	3yrs	5yrs	Since inception
Fund (Ex initial charges)	11.7	9.9	12.3	4.8
Fund (Inc initial charges)	6.1	8.1	11.2	4.2
Benchmark*	12.8	10.4	13.8	4.7

Cumulative Performance in SGD (%) [1]	3 mths	1yr	3yrs	5yrs	Since inception
Fund (Ex initial charges)	2.2	11.7	32.9	78.7	55.1
Fund (Inc initial charges)	-2.9	6.1	26.3	69.8	47.4
Benchmark*	3.1	12.8	34.6	91.3	53.6

Asset Allocation (%) [1]



Country
- USA 45.2
- Japan 9.1
- UK 8.4
- Canada 6.8
- Italy 5.2
- China 4.7
- Australia 4.6
- France 4.1
- Spain 3.0
- Brazil 2.7
- Other 2.8
- Liquidity 3.4



Sector
- Electric Utilities 25.5
- Highways & Railtracks 18.3
- Oil & Gas Storage & Transportation 14.3
- Multi-Utilities 13.1
- Railroads 9.3
- Specialised REITs 5.7
- Marine Ports & Services 3.4
- Gas Utilities 3.0
- Airport Services 2.2
- Construction & Engineering 1.5
- Other 0.4
- Liquidity 3.4

[1] Source: Lipper, First State Investments. Single pricing basis with net income reinvested. Data as at 31 July 2017. Fund since inception date: 3 March 2008. *Inception - 31 May 2008: S&P Global Infrastructure Index. 1 June 2008 – 31 March 2015: UBS Global Infrastructure and Utilities 50-50 Index. From 1 April 2015: FTSE Global Core Infrastructure 50/50 Index.

Top 10 holdings (%) [1]

Stock name	Sector	%
National Grid plc	(Multi-Utilities)	7.7
Enbridge Inc.	(Oil/Gas Storage & Trans.)	5.7
American Tower Corporation	(Specialised REITs)	5.1
Atlantia S.p.A	(Highways & Railtracks)	4.8
Kinder Morgan Inc Class P	(Oil/Gas Storage & Trans.)	4.6
Transurban Group Ltd.	(Highways & Railtracks)	4.6
East Japan Railway Co	(Railroads)	4.5
Dominion Resources, Inc.	(Multi-Utilities)	4.2
NextEra Energy, Inc.	(Electric Utilities)	4.2
American Electric Power Company, Inc.	(Electric Utilities)	4.1

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.

[1] Source: Lipper, First State Investments. Single pricing basis with net income reinvested. Data as at 31 July 2017. Fund since inception date: 3 March 2008.