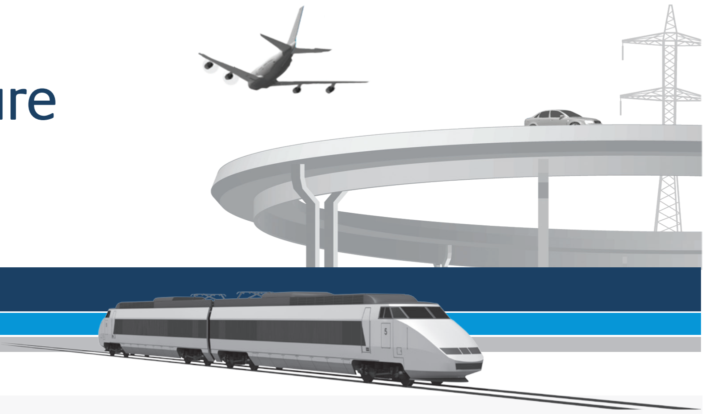
First State Global Infrastructure

Monthly Review and Outlook
August 2019



Market Review

Global Listed Infrastructure added value to portfolios in August as investors sought more defensive exposure. Geopolitical uncertainty persisted while an inverted bond yield curve indicated a rising risk of recession.

The best performing infrastructure sector was Towers (+8%) which continues to benefit from structural growth in demand for mobile data. Vodafone confirmed its intention to unlock the value of its 60,000 wireless towers across Europe. The process highlights there are still a significant number of infrastructure assets trapped in conglomerate structures, with the potential to expand the listed infrastructure opportunity set over time. Water / Multi / Electric Utilities (+4-6%) gained on the appeal of their regulated income and steady growth. This growth is largely driven by replacement capex and should not change materially during a period of low economic growth or recession.

The best performing infrastructure regions were United States (+4%) and Canada (+4%) as government bond yields neared all-time lows, stimulating demand for income generating assets like towers, utilities and pipelines.

The worst performing sectors were Ports (-4%) and Railroads (-4%) on increasing trade and political tensions between the US and China. During the month the US announced tariffs on $300bn of Chinese imports and accused China of manipulating its currency. China retaliated with new tariffs on $75bn of US products. Further tensions with Iran and North Korea and between Japan and South Korea were not helpful for sentiment towards global trade. Trade wars are not positive for equities overall but infrastructure should be relatively immune. With less than 10% of the Fund in ports, freight railroads and energy exports, any impact from trade wars should be more than offset by a "flight to safety" into domestic plays like utilities and towers.

Unrelenting protests in Hong Kong spilled over to markets this month with a number of key stocks impacted – Hong Kong & China Gas -13%, China Light & Power -5%, Power Asset Holdings -6%, Cheung Kong Infrastructure -12%, MTR Corp -12%, Hutchison Ports -29% – none were owned by the Fund. The negative drivers outlined above were reflected in the performance of Asia ex Japan (-3%) and Japan (-2%).

Fund Performance

The First State Global Infrastructure ended the month +1.48%[1] higher, underperforming its benchmark index by 85bps. Positioning within the Toll Road and Tower sectors aided relative performance, largely offset by underweight positioning in US utilities.

Towers were positive for the portfolio with American Tower (+9%), Crown Castle (+9%) and SBA Communications (+7%) contributing to returns. US-based towers are generating organic site leasing revenue growth of 6-7% and are returning strong cash conversion to shareholders through growing dividends and large buybacks. The merger of telecom operators Sprint and T-Mobile presented a potential headwind for the tower sector. The market welcomed the forced sale of customers and spectrum to DISH which should create an effective 4th operator and mitigate the risk of consolidation.

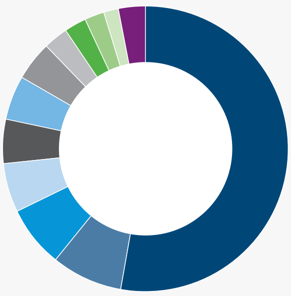
Toll roads delivered mixed performance in the month. Ferrovial (+10%) gained as the market started to fully reflect the value of its concessions business. The company added a fourth Managed Lanes project in Dallas-Fort Worth, Texas and also opened new lanes in Charlotte, North Carolina. Meanwhile it appears to be close to finalising the sale of non-core assets. CCR (+9%) continues to participate in new growth projects and privatisations that will be required to enable Brazil to meet its infrastructure needs. Vinci (+7%) performed well as margins in the construction business (now less than 10% of operating earnings) were not as low as feared while the dominant concessions business continues to generate strong cash flows from its portfolio of world-class toll roads and airports. In contrast, Transurban (-4%) fell after announcing an A$800m equity issue to buy-out minority interests in the M5 West toll road in Sydney. The deal is cash flow accretive and will provide management with synergies and operating flexibility in the future. Atlantia (-5%) gave back some of its recent gains as the formation of a coalition government from the Democratic Party (center-left) and 5-Star Movement (anti-establishment) increased the risk of changes to concession agreements.

All stock and sector performance data expressed in local currency terms. Source: Bloomberg. [1] The First State Global Infrastructure performance is based on the Singapore unit trust, net of fees, expressed in SGD terms.

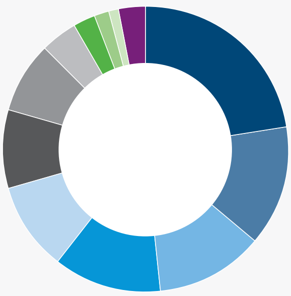
	Annualised Performance in SGD (%) [2]				
	1yr	3yrs	5yrs	10yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	14.6	8.4	8.0	8.3	5.0
Class A (SGD - H Dist) (Inc initial charges)	8.8	6.6	6.9	7.7	4.5
Benchmark*	17.3	11.2	9.8	9.5	5.5

	Cumulative Performance in SGD (%) [2]				
	3 mths	1yr	3yrs	5yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	5.6	14.6	27.4	47.1	74.3
Class A (SGD - H Dist) (Inc initial charges)	0.4	8.8	21.1	39.8	65.6
Benchmark*	5.7	17.3	37.4	59.9	85.2

Asset Allocation (%) [2]



Country
- USA 53.0
- Canada 7.8
- Japan 7.1
- UK 5.5
- China 5.0
- Australia 4.9
- France 4.4
- Spain 3.0
- Italy 2.4
- Mexico 2.2
- Other 1.6
- Liquidity 3.0



Sector
- Electric Utilities 22.5
- Multi-Utilities 13.8
- Oil/Gas Storage & Trans. 12.2
- Highways/Railtracks 12.1
- Railroads 10.1
- Specialised REITs 8.9
- Gas Utilities 8.2
- Construction & Engineering 4.0
- Airport Services 2.7
- Marine Ports & Services 1.5
- Other 1.1
- Liquidity 3.0

Top 10 holdings (%) [2]

Stock name	Sector	%
Nextera Energy Inc	(Electric Utilities)	5.6
Dominion Energy Inc COM	(Multi-Utilities)	5.4
Transurban	(Highways/Railtracks)	4.9
Williams Companies, Inc.	(Oil/Gas Storage & Trans.)	4.1
TC Energy Corp COM	(Oil/Gas Storage & Trans.)	4.0
Crown Castle International Corp	(Specialised REITs)	3.6
East Japan Railway Co	(Railroads)	3.5
Union Pacific Corporation	(Railroads)	3.2
American Electric Power Company, Inc.	(Electric Utilities)	3.2
CenterPoint Energy, Inc.	(Multi-Utilities)	3.0

US utilities were driven higher as falling US bond yields increased the attraction of defensive income. The market continued to favor high quality utilities such as NextEra Energy (+6%) and Eversource (+6%) that have strong management teams and significant growth coming from grid modernisation and/or renewables. The market also found support for Dominion Energy (5%) as the discount for single project risk – delays in the Atlantic Coast Pipeline – became overdone. Evergy (+8%) also outperformed due to its defensive characteristics supported by its buyback program.

US freight railroads Union Pacific (-9%) and Norfolk Southern (-8%) were negative contributors to returns. Carloads continued to deteriorate, down -6-7% so far this quarter, pressured by ongoing trade tensions, a sharp decline in demand for coal and weather-related delays in grain harvests. There is increasing concern that core price increases, cost reductions and share buybacks will not be sufficient to offset these volume declines. The silver lining to reduced volumes is that UNP and NSC will be able to implement Precision Scheduled Railroading (PSR) with limited to no impact on customer service, establishing a more efficient and lower cost base for the future.

Ongoing trade tensions and low gas prices impacted the outlook for energy pipeline companies. Cheniere Energy (-8%) and Enterprise Products (-5%) were impacted by market concerns that the US trade dispute with China would reduce demand for energy exports like LNG and LPG. Both companies are making significant investments in Texas and Louisiana to transport, process, store and export US hydrocarbons to the world. Williams (-4%) fell as very low natural gas prices, resulting from an abundance of volumes, forced a number of north-east US gas producers to moderate their growth outlook. Lower production volumes reduce demand for Williams gathering and processing services.

Fund Activity

This month the Fund sold its holdings in Aurizon and Kinder Morgan after expected catalysts played out and value was realised. Freight rail operator Aurizon delivered positive commercial agreements with customers that will substantially reduce regulatory risk. The company also confirmed the outcome of its vertical integration and capital structure reviews that will unleash borrowing capacity of up to A$1.2 billion that may be used to fund further buybacks. Pipeline operator Kinder Morgan was divested following recent strong performance, underpinned by execution of its divestment of non-core assets that resulted in a healthier balance sheet and a return to dividend growth.

[2] Source: Lipper & First State Investments. Single pricing basis with net income reinvested. Data as at 31 August 2019. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. The First State Global Infrastructure inception date: 3 March 2008.

Market Outlook and Portfolio Positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, ports, railroads, utilities, pipelines, and wireless 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.

The Fund is positioned with Toll Roads as its largest sector overweight. Transurban, Atlantia and Vinci have high barriers to entry, strong free cash flow and inflation linked pricing. We are attracted to their reasonable valuation multiples and well-supported dividend yields of between 3% and 6%. Growing urbanisation and worsening traffic congestion are likely to underpin long term demand. EM peers operate high growth toll roads with well-established concession agreements, providing an essential service to some of the most densely populated regions in the world.

The Fund is also overweight energy Pipelines including TC Energy, Williams and Enterprise Products. These companies own assets connecting North American oil and gas fields with processing facilities and export terminals, positioning them to benefit from rising production levels and energy exports.

The Fund is underweight Multi/Electric Utilities. A number of high quality US names continue to trade at valuations that we find difficult to justify based on company fundamentals. The Fund has also maintained its underweight exposure to Airports, with exposure limited to leading European and Mexican operators. The airport sector faces medium term headwinds following a long period of above-average growth.